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INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

HEARINGS

BEFORE A

SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM

UNITED STATES SENATE
SEVENTY-SEVENTH CONGRESS

FIRST SESSION

PURSUANT TO

S. Res. 71

A RESOLUTION AUTHORIZING AND DIRECTING
AN INVESTIGATION OF THE NATIONAL
DEFENSE PROGRAM

PART 6

JULY 15, 16, 17, 22, 23, 29, 30, 31, AND AUGUST 5, 19, 21, AND 22, 1941

WAR DEPARTMENT'S ACCOMPLISHMENTS IN FISCAL YEAR, 1940

EMERGENCY SHIP CONSTRUCTION

SMALL BUSINESS IN THE DEFENSE PROGRAM

ARMY AND NAVY RENTAL OF EQUIPMENT

DEFENSE PROBLEMS IN CALIFORNIA

Printed for the use of the Special Committee Investigating
the National Defense Program



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DEFENSE PROGRAM

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92. Cost-plus-a-fixed-fee construction contract, dated September 9, 1940, between War Department and T. A. Loving Co., for construction of Fort Bragg, N. C.-----	1705	1889
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¹ On file with the committee.

INVESTIGATION OF NATIONAL DEFENSE PROGRAM

TUESDAY, JULY 15, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:36 a. m., pursuant to adjournment on Wednesday, July 9, 1941, in room 318, Senate Office Building, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman, chairman; Tom Connally, and James M. Mead.

Present also: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order.

Mr. Secretary, you are here for the purpose of making a statement for us. You may proceed with it, if you please.

TESTIMONY OF HON. ROBERT P. PATTERSON, UNDER SECRETARY OF WAR¹

Mr. PATTERSON. Thank you, Senator Truman. My statement is somewhat lengthy. In fact, there are many statements here. Perhaps they will be of value to the committee, however. It may be the case, in regard to these statements that appear here, the information that I am about to give to the committee, that "many are called but few are chosen."

I am glad to have this opportunity to appear before your committee to make a statement concerning actual accomplishment in Army procurement during the fiscal year which ended on June 30, 1941.

There is a natural tendency in investigations of this character to emphasize the shortcomings of those who have been carrying out a program and to ignore the record of their accomplishment. I appreciate that your committee has striven to avoid such a result and that you have bent your efforts toward making this inquiry a constructive one and toward assisting the Army in meeting its many problems.

The tremendous task suddenly imposed in the summer and fall of 1940 upon our small Army Establishment could not be performed overnight, nor could it be carried out with absolute perfection. Without doubt, errors in judgment have been committed and there are some things which we have done which, in the light of experience or in the absence of pressing requirements of speed, we would have done differently. But a singling out of our mistakes or failures to the exclu-

¹ For previous testimony of Secretary Patterson before this committee, see Hearings, Parts 1 and 5.

sion of proportionate consideration of our correct decisions and successes would create a distortion, not only unfair to the War Department and discouraging to our citizens, but stimulating beyond fair warrant to the morale of those who do not wish us well.

I understand that I have been called here today so that an over-all picture of the work of the War Department during the last year may be presented to you. In my first statement to this committee,¹ made in April, I attempted to show the organization which the Army had set up in order to obtain its matériel and the methods of procurement which were pursued.

WAR DEPARTMENT'S ACCOMPLISHMENTS IN FISCAL YEAR 1940

MR. PATTERSON. I shall take this opportunity to go more fully into what the Army has accomplished in the fiscal year recently completed and what its prospects are for further achievement during the coming months. The committee is entitled to this information, and the American people should know about it.

I am limited in one respect in making a full report of this nature. Military secrecy is a difficult thing to achieve in a democracy, and yet it is of the utmost importance that those who have hostile designs be afforded as little valuable information as possible. The War Department has zealously guarded against public disclosure of many essential details of its plans. To a military expert, disclosure of the amount of equipment affords a vital source of deduction as to contemplated defensive or offensive measures with a corresponding increased ability to counteract those measures. With this in mind, I shall, in many instances, omit detailed statistics as to supplies of aircraft, guns, and ammunition. Furthermore, a detailed disclosure as to the nature and amounts of equipment sent to the British or to others under the defense aid program would materially assist the Axis Powers in the disposition of their own armed forces.

In making this report, I wish to avoid in any way misleading you as to our state of preparedness for modern total war. We must remember that when, in June 1940, France fell and the British retreated from Dunkerque, the United States was almost wholly unprepared for a large-scale war on land and in the air. To be sure, we had a small Regular Army with able officers, and a large Officers' Reserve force. To be sure, we had a National Guard which had some equipment and some training. We also had considerable basic equipment, including a small number of aircraft. But we had neither a supply, nor even the source of supply, of munitions and airplanes and guns and tanks in anything like the quantities required for present-day warfare. Manpower had to be augmented and, at the same time, weapons procured to make such manpower effective.

Outside of a few Army arsenals, we had practically no munitions industry in America. Production of military aircraft in large quantities was unknown to our manufacturers. We had in our country the greatest productive capacity in the world, but it had been designed and was being used to produce commodities needed by the civilian population in time of peace. We were proud of our lack of militarism and of the fact that our industry was producing not only butter

¹ See Hearings, Part 1.

but a myriad of other useful products, instead of being concentrated upon guns and other armament.

This peaceful situation in the United States was abruptly brought to an end in the early summer of 1940. The Congress and the people suddenly realized our danger from the conquering totalitarian armies of Europe. It was determined to increase our Army to 1,400,000 men and to provide all essential items for such an Army, together with means of supply critical items for an Army of 2,000,000 men. While some appropriations were made in the early summer, it was not until the end of August, when the Congress decided to call the National Guard into Federal service, and the middle of September, when the Selective Service Act was passed, that the Army knew what its size would be or received appropriations sufficient to commence housing and equipping itself.

So it is less than a year ago that the Army's task was assigned to it. In the intervening period we have made great progress. I do not claim that America as yet is adequately armed or prepared or that we have become a thoroughly stocked and sufficiently productive arsenal for ourselves and for the other democratic nations as well. But we have gone a good distance. Before long the work which we have already done in planning and ordering equipment and in providing manufacturing facilities will produce in ever-increasing measure the results which we all desire.

Our plans from the start of the emergency have called for modern equipment equal and superior to what is being used in Europe. We have been asking for appropriations in increasing amounts and are placing orders for additional ordnance and aircraft. We must bear in mind that for total warfare of the kind raging in Europe today we can never have enough munitions.

Speed in procurement of armament has been the controlling factor during the last year in each decision the War Department has made. I realize that to many it seems of great importance that the expenditure of funds for our military effort should be distributed widely over the country and that small manufacturers, as well as large, should be given a chance to share in the program. All this is desirable and, as I shall point out, we are doing what we can thus to spread the load. But the prime need has been to acquire the necessary equipment as speedily as possible where it could best be obtained, in order that our almost defenseless situation of a year ago might be changed to a situation of adequate preparedness. If maximum production of aircraft of a certain type would have been accomplished by giving all of the contracts to a single manufacturer, we would have been justified in doing that. If maximum production of aircraft could have been obtained by parceling out the manufacture of every component part to every machine-tool operator in the country, we would have been justified in doing that. If weapons and ammunition could have been purchased expeditiously from manufacturers evenly divided among all the States in the Union, we would have bought our supplies from them. If, on the other hand, this country had had a Vickers Co., or a Krupp factory, or a Skoda works, or a Schneider arsenal, we would not have hesitated to use it.

I need not tell this committee that the defense effort is a serious business. It is the most serious business we have. Our entire safety

and our future depend upon our preparation. We have tried to save money, and we have tried to divide the burden and distribute the awards throughout the country so far as possible. But preparation for defense is the worst possible vehicle for relieving economic and social conditions. We should never be forgiven if, for the sake of avoiding economic interruptions or for the sake of aiding certain regions or certain types of industrial endeavor, we failed to utilize and to extend existing industry wherever that course was the quickest and surest method of getting the most and the best weapons for our troops.

Preparation for defense necessarily dislocates industry. We cannot initiate a great war effort and continue to have peacetime industry functioning as usual. Certain materials become scarce and must, as to all or a greater part thereof, be used for defense purposes. Skilled labor and machine tools are required, which can only in part be secured without affecting civilian supply. However well production is planned, there is bound to be some migration of labor.

Necessarily, too, preparation for defense dislocates civilian supply. I doubt if more than 15 percent of America's productive effort is devoted to defense work. If we expect to equal and surpass other countries, far more of our machines and labor must be placed at the service of the War Department and the Navy Department. Stepped-up production under prior authorizations and appropriations, and those being made for the coming fiscal year, will do much to increase the percentage of defense effort placed upon industry. This will inevitably mean fewer civilian automobiles, refrigerators, and so on. It will mean the use of substitutes in nondefense products. But as defense production gradually increases, there will be a constant spreading of contracts and subcontracts to industries not heretofore employed in defense and this will, to a great extent relieve idleness in such industries.

THE NEW ARMY

MR. PATTERSON. During the year that I have served in the War Department I have had the cooperation of all of its personnel, military and civilian. I did not find an Army composed of men without ideas or plans, as some critics imply. The leaders did not look back to 1917. They knew the weapons needed for modern warfare. They had carefully prepared plans for industrial mobilization. They were profiting by what had been developed out of the war in Europe. They have worked with singleness of purpose and with vision.

The kind of an Army which we intend to have, of course, governs the matériel to be procured. It is our plan to provide an Army organized and equipped for modern warfare superior in equipment to that of any other nation.

The large Army establishment at the end of the last World War was quickly liquidated, and facilities for supplying the Army were, for the most part, disposed of. In the 1920's appropriations limited the Regular Army to 118,000 men and 12,000 officers. In July 1939, shortly before the outbreak of war in Europe, the Regular Army consisted of 174,000 soldiers scattered among 130 Army posts in the continental United States and in the five overseas garrisons. The only division concentrated at one post was at Schofield Barracks in Hawaii. At that time there was one mechanized brigade of the strength of 2,300 men, and three tank regiments of a total of about 1,400 men. At

this same date the Air Corps consisted of 17,000 men, and the planes on hand amounted to 1,450 tactical planes and 375 training planes. The Air Corps was turning out 800 pilots a year. There were no Army troops, no corps troops, no corps artillery. This was our establishment, in contrast to the great organized and mechanized armies of Germany and other European countries, with their large and increasing air corps.

For the fiscal year beginning July 1, 1939, Congress increased the Army to 210,000 men, and, by Executive order of September 8, 1939, after the outbreak of the war in Europe, the strength was increased to 227,000 men, which increase was realized by January 31, 1940, a few months before Hitler's successful blitzkrieg into the low countries and France. The increases between July 1, 1939, and the first part of 1940 were used to build up our overseas garrisons, to expand the Air Corps and to create two incomplete sets of corps troops.

On June 13, 1940, when the fall of France was imminent, the Regular Army was authorized to increase to 280,000, being the number contemplated by the National Defense Act of 1920. There had previously been organized some skeleton triangular divisions, and this permitted the increase of our triangular divisions from five to eight, and the organization of our first armored division. It also permitted the bringing of the Air Corps to a 25-group program of 105 tactical squadrons. The act of June 13, 1940, increased the rate of pilot training to 7,000 a year and permitted the expansion of existing schools.

Later, in the month of June 1940, the Regular Army was increased to 375,000 men. The calling of the National Guard into Federal Service and the passage of the Selective Service Act made it possible to bring up the existing divisions to war strength and to create additional triangular divisions and motorized divisions. A second armored division was organized, and the Air Corps was increased to 41 groups of 166 tactical squadrons.

I might digress there for a moment, gentlemen, to say that we could not have carried out our training program for pilots for the Air Corps without the measure which was adopted about a year ago of taking on civilian schools giving the primary training to the Flying Cadets who were taken on by the Air Corps. The War Department took the innovation, at the time, of making contracts with quite a number of civilian schools for the training of air pilots. That only applied at first to primary training. As you know, the pilots go through three courses, primary, basic, and advanced, and the civilian schools were in the primary training course.

The CHAIRMAN. How long does it take to make a pilot, Mr. Secretary?

Mr. PATTERSON. About 6 months.

The CHAIRMAN. Six months. That takes place through all three courses?

Mr. PATTERSON. Yes, sir. Each of those courses covers 10 weeks. Quite recently we have taken on contracts with some civilian schools in the basic course, but that is a very recent development. I think it is safe to say that we could not have handled the quick expansion required in the training of pilots, Flying Cadets, without that assistance we got from the contracts with the civilian schools. It was a quick program that was necessary, and we met it by taking on the civilian schools.

There are Army officers with those civilian schools, and they pass upon the qualification of Flying Cadets at the close of the primary course. The Army supplies all equipment for those flying schools, the civilian schools. The primary trainers that they use at those schools are supplied by the War Department, but the instruction and the headquarters and the various facilities on the ground are provided by the civilian schools themselves.

I can't give you the number of civilian schools we have on the program now. Some time ago I think it was 28, and they are scattered pretty well over the United States, mainly in the South and Southwest on account of the climate there, which permits training in winter.

At the present time the active Army consists of nearly 1,500,000 soldiers. We have nine triangular divisions, one of which is completely motorized—that is the Fourth Division, down in Fort Benning—18 square divisions, being the National Guard divisions; 2 cavalry divisions, 4 armored divisions, and additional corps and Army troops and General Headquarters Reserve, including field artillery, coast artillery, hospital, quartermaster, and other special troops. We also have strong garrisons in the Philippines, Hawaii, Alaska, Panama, and Puerto Rico, as well as in the new island bases. The Air Corps has 167,600 in its enlisted strength and has increased its rate of pilot training to 30,000 a year.

This increased Army has, of course, not yet reached its final form, even for the present number in the service. The formation of additional armored divisions and the achievement of greater motorization awaits the procurement of the necessary modern equipment. While the increase in personnel since July 1, 1940, has been sixfold, increase in matériel will be at least thirtyfold. This will give some indication of the task imposed on the War Department and upon American industry. Our goal is not yet achieved, but we are working with all the speed that we can. We know that every day and every hour counts. We are now partially ready, and we hope to be completely ready when called upon.

I mentioned a moment ago the armored divisions. We have four at present, the latter two being, however, short in equipment. We plan on the organization of two more shortly, and two more thereafter, making eight for which we have present plans. Under the estimates we have now in Congress, we will have the matériel for a great many more armored divisions than the original eight now contemplated.

Senator CONNALLY. Let me ask you a question there about armored divisions. How do the armored divisions differ from the tank?

Mr. PATTERSON. They are the same thing.

Senator CONNALLY. That is what I had in mind. They use both terms frequently in the press and otherwise; they speak of tank divisions and then of armored divisions.

Mr. PATTERSON. They are the same thing.

Senator CONNALLY. The tank division is an armored division?

Mr. PATTERSON. Yes, sir.

Senator CONNALLY. And vice versa?

Mr. PATTERSON. I think there may be some confusion arising from the use of the word "motorized" division, which is different.

Senator CONNALLY. Of course, a motorized division could have a division which had trucks to carry the men forward.

Mr. PATTERSON. Yes, sir; scout cars.

Senator CONNALLY. And things of that kind.

The CHAIRMAN. Is the armored division the same as the German panzer division?

Mr. PATTERSON. Yes, sir.

Senator CONNALLY. Well, doesn't a panzer division include the air corps that goes ahead and the follow-up with the tanks?

Mr. PATTERSON. I think they apply the word "panzer" division to the troops in the tanks. I think the arrangement in the German Army is that they have tactical units of their air force attached to the panzer divisions for a particular task, as I understand it, and under the command, for the time being, at any rate, of the commanders of the panzer divisions.

GENERAL FIGURES ON PROGRESS

Mr. PATTERSON. It is difficult to arrive at a figure which will correctly indicate what part of the program set-up for the fiscal year 1941 has been completed. For example, a relatively small amount of powder has been delivered up to the present time, but three new powder plants have been under construction during the year, two of which are now turning out powder and will soon reach full production. That "soon," I realize, is a rather elastic word. They will reach actual production, our best indications are now, in August. A similar situation exists with regard to a number of other items, such as small arms ammunition. In other words, facilities had to be created before production could start. The construction work is largely done, and production from now on will rapidly increase.

Of course, the first job in the War Department has been to obligate the funds authorized by the Congress. From time to time there has been criticism that much of the matériel is merely "on order." However, equipment does not automatically reach the "on order" stage. To order billions of dollars of construction, new facilities and supplies is in itself a huge undertaking. Specifications have to be prepared; bids, either formal or informal, sought; contractors found who are able and willing to perform; quantities, sites, and prices determined.

At the beginning of the fiscal year 1941, practically all of the moneys available to the War Department out of 1940 appropriations had been obligated. As large additional appropriations and contract authorizations became available during the year, the money was obligated under contracts with great rapidity.

I might divert there for a moment and say that during the month of June 1941, just completed, the War Department obligated practically \$5,000,000,000 worth of appropriated funds. The greater part of that was on direct appropriations, but a very substantial part of it was also under defense-aid appropriations. That is by all odds the heaviest volume of business ever done by the War Department in its whole history.

During most of the time, in spite of supplemental and additional appropriations, the War Department had 90 percent or more of its appropriations and contract authorizations let on contract, formal or informal. When, however, in April we received the large fifth sup-

plemental appropriation and a large allocation for defense aid under the lend-lease appropriation, there was a period up to the latter part of June when we had not caught up in our contracts with our authorized task. Nevertheless, I am able to report that as of the end of the fiscal year a week ago, we had obligated in contracts for new facilities, construction and supplies, nearly \$11,000,000,000 out of the \$11,400,000,000 available to the War Department from regular military appropriations.

Some of the defense-aid appropriations available at the end of the fiscal year were not obligated for the reason that we have been awaiting specifications on some items as to the needs of Great Britain and others to whom the supplies are to be delivered.

As to deliveries of supplies and construction completed, I can give you some idea of the speed-up in accomplishment by informing you that the War Department expenditures in the first quarter of the fiscal year recently completed were running at an average of \$3,600,000 per working day. In the second quarter the expenditures increased to \$8,800,000 per day. In the third quarter they increased to \$18,800,000 dollars per day, and in the fourth quarter recently ended the amount expended per working day was \$20,900,000. In other words, the rate of expenditure increased six times.

I shall now review the work of the Supply Arms and Services.

ORDNANCE DEPARTMENT

Mr. PATTERSON. The Ordnance Department is responsible for the design, development, and procurement of almost every offensive and defensive weapon required for the military forces—artillery, rifles, ammunition, machine guns, tanks, bombs, and so forth. This department operates in a field in which there is very little commercial production of the numerous kinds of technical equipment needed in modern warfare. The absence of a munitions industry in America has been our greatest lack.

The Ordnance Department was prepared for its task. It was decentralized into 13 districts controlled from the Washington office. It was managing 6 manufacturing arsenals.

From 1923 to 1938 appropriations for ordnance were so small as to preclude the placement of substantial orders with private industry. Hence the major part of the ordnance equipment and ammunition authorized by Congress during the years of small appropriations was produced by the Department's arsenals—Frankford, at Philadelphia; Picatinny, at Dover, N. J.; Rock Island, at Rock Island, Ill.; Springfield, at Springfield, Mass.; Watertown, at Watertown, Mass.; Watervliet, at Watervliet, N. Y.

In 1939 and 1940 the Congress increased the appropriations for new ordnance equipment and ammunition, the total appropriated for material for the fiscal year 1940 being \$135,000,000. This gave the Ordnance Department the chance to lay the groundwork for its enhanced program of the year 1941. Educational orders were authorized for 1939 and 1940, and a number of such orders were placed, 81 being placed with 70 different contractors out of 1940 funds. The experience in tooling up thus provided gave the Department a start when the emergency developed in the summer of 1940.

The \$135,000,000 appropriated for 1940 was divided approximately half and half between the arsenals and private industry, but the arsenals in turn placed approximately half of their money with private industry for materials and components. Thus the total orders to private industry for that year were nearly \$100,000,000.

The Ordnance Department has long recognized that new production facilities would be required for certain highly technical items and processes for which facilities were largely nonexistent in our civilian industry; for example, smokeless powder, TNT, ammonia, small-arms ammunition, and plants for loading artillery ammunition. Plans for the establishment of such manufacturing plants were developed over preceding years. Three years ago the Congress recognized the critical nature of these materials and appropriated funds for the procurement of some of the highly specialized machinery required for the production of powder and small-arms ammunition and for the operation of loading plants. The reserve machinery thus procured was of immeasurable value.

The Ordnance Department, by the way, has been engaged for months in leasing out machines to industries which have production orders with the Ordnance Department. There is not the slightest doubt that the great part of the progress made in getting actual production out of industrial concerns with such orders has been due to the leasing of these essential machines which have been stored meanwhile in our Army arsenals. We are indebted to Congress for the last 3 or 4 years for a good deal of that matériel so accumulated by the Ordnance Department when the funds for the purchase of that necessary machinery were procured.

By July 1, 1940, the great bulk of the ordnance engineering designs and specifications were in such condition that orders could be placed without delay. Consideration had been given to the location of plants, and sites in many parts of the country had been surveyed.

Under the industrial mobilization plan, as I have previously informed you, a large number of industrial plants had been allocated to the Ordnance Department.

That had been done by the Joint Army-Navy Munitions Board.

A number of these plants had been given educational orders, while a number of other selected companies had initiated, under the direction of the Ordnance Department, production studies for the making of critical items. The ordnance research and development, of course, did not stop on July 1, 1940, but has continued at an accelerated pace, bearing in mind the lessons of the war in Europe. So I can safely say that the designs for artillery, tanks, and other equipment are modern in every respect.

During the fiscal year 1941 prior to April 1 of this year, about \$2,000,000,000 was appropriated for the use of the Ordnance Department for equipment and ammunition, and an additional \$600,000,000 for new facilities. You may be interested to know that 98 percent by amount and 90 percent by number of Ordnance Department awards over \$50,000 have been placed with companies which were allocated to the Ordnance Department under the industrial mobilization plan.

Today the Ordnance districts are administering upward of 1,500 prime contracts and over 21,000 subcontracts. For example, one pro-

ducer of scout cars has utilized 186 principal subcontractors located in 12 different States. The operator of the tank arsenal in Detroit—the Chrysler Corporation—recently announced that 700 concerns in 130 cities were assisting his company to make the medium tank. The ordnance load has been distributed to industry throughout the country in accordance with industry's ability to produce.

Furthermore, the Ordnance Department has itself contracted directly, in many instances, for components, rather than for completed items, thus, in effect, doing its own subcontracting. This is true in the case of the medium tank, the armor plate for the hull being procured from one manufacturer, the transmission from another, the engine from still another, and the armament from several different sources, all components being assembled by the prime contractor for the tank hull. Likewise, in the case of artillery ammunition, the cartridge case was procured from one source, the shell forging from another, the machining of the shell being done by still another, while the primer, the fuze, the powder, the adapter and booster, and the shell filler are each from different and distinct sources. All these components meet at the Government-owned loading plant for assembly into complete rounds ready for firing. Another example is the 90 mm. antiaircraft unit where the carriage comes from one source, the gun itself from a second source, and the recoil mechanism from a third producer; the fire director is produced elsewhere, and the height finder and on-carriage fire-control equipment each derive from separate manufacturers. All of these components meet at one of the Ordnance proving grounds for test and assembly into complete units for issue to the troops.

Progress on the new production-facilities program has been delayed by the operation of the priorities system, which has placed certain items, such as naval items and aircraft, ahead of ordnance matériel, and also by the scarcity of machine tools. Nevertheless, this program is making good progress. Three small-arms ammunition plants are under way, one at St. Louis, one at Kansas City, and one at Denver. Plans for these plants were made years ago with the two leading manufacturers of small-arms ammunition. Three additional plants have recently been arranged for (those plants are at St. Paul, Des Moines, and Salt Lake City), and the capacity of the St. Louis plant is to be increased.

Three smokeless-powder plants are under construction. One is at Charlestown, Ind., one at Radford, Va., and one at Sylacauga, Ala. They sometimes call it Childersburg, but they tell me it is the same place. An additional plant has been provided for and is in the negotiation stage at this time. In April production of powder began at the Radford plant and at the Charlestown plant. The designs of these plants are based upon plans made some years ago by the Ordnance Department in collaboration with the two principal powder-manufacturing companies.

Facilities for the manufacture of TNT for use as a shell filler are now under construction at Joliet, Ill., Weldon Springs, Mo., and Sandusky, Ohio. An additional TNT plant is in the negotiation stage at this time. Production will start at the Joliet plant in a few weeks.

Two ammonia plants, a toluol plant, and an ammonium nitrate plant are under construction. Two additional ammonia plants are planned. An ammonium picrate plant is in the negotiation stage.

Three bag-loading plants are under construction, and one additional bag-loading plant is in the negotiation stage. Five shell and bomb-loading plants are under construction, and four additional loading plants are shortly to be commenced. Four of the shell-loading plants will begin operations within a month or 6 weeks.

I might say that those ordnance plants devoted to the production of smokeless powder, small-arms ammunition, shell loading, bag loading, and the production of TNT and ammonia, have been in two phases. The plants we call the first-string plants were all commenced last fall and are now either completed or approaching completion. We believe that they will all be in operation in September. These additional plants that I have mentioned here are second-string plants, plants commenced since April, that is, we got the money for them in the Fifth Supplemental Appropriations Act, which took effect in April of this year. Those are second-string plants. They are of the same kind as the first-string plants. In some instances they have the same volume as the first-string plants, but in general they have a lesser volume than the first-string plants in some categories, and it is the policy of the War Department to construct them of somewhat less permanent materials than the first-string plants. The production probably will go up faster and the cost of production will be somewhat cheaper. We think of the first-string plants as permanent plants that, upon the passage of this emergency, may be held as standby facilities for the use of the Government. The second-string plants are for increased production, and whether they would be kept permanently or not is a matter still open for discussion.

Five machine-gun plants operated by private industry, but equipped by the Government, are well along toward completion. We are now getting machine guns from three of these sources.

The tank plant at Detroit, Mich., delivered its first medium tank in April. We are getting tanks from this plant in fair volume now, and quantity production will start in the near future. That is dependent upon the procurement of some remaining items of machine tools that have been hard to get, due to the fact that tank production has not had a high priority rating.

The new proving ground at Madison, Ind., has started operations on a limited scale, and an additional proving ground is being established in Arkansas. That is quite a departure for the Army, gentlemen, in the expansion, because, as you know, the old reliable Aberdeen Proving Ground was the sole proving ground we had to test out the weapons and supervise the issuance of the weapons to the troops, but we now have this additional one in Indiana. It is about to go into use, and a new one was recently negotiated for in Arkansas.

Deliveries on the 1941 ordnance program have started, but have not yet reached the volume we desire. This is partly because the manufacturing plants had themselves to be built. However, large quantities of components have already been manufactured and when the production of other components at the new plants catches up we believe that the completion of critical items of equipment and ammunition will then quickly accelerate. Already our production of basic weapons and ammunition has increased from 100 to 1,000 percent over 1940.

The matériel with which our troops are equipped is of advanced design and thoroughly effective. Our shoulder rifle, the much pub-

licized Garand, the basic weapon for Infantry adopted as standard in 1936, has three times the fire power of the Springfield. Our troops are rapidly being equipped with this rifle—

Senator CONNALLY (interposing). Do you mean speed of firing or the aim of firing?

Mr. PATTERSON. Speed. A soldier who could fire 10 rounds a minute with the Springfield can fire 30 rounds a minute with the Garand for aimed shots.

Senator CONNALLY. It gets hotter, doesn't it?

Mr. PATTERSON. Any rifle will get hot if you keep up a rate of fire for quite a while.

Senator CONNALLY. One that shoots 30 will get a little hotter than one which shoots 10.

Mr. PATTERSON. That is true.

Senator CONNALLY. All right.

Mr. PATTERSON. I might say that the criticism which the War Department encountered about this time last year on the Garand rifle has ceased. That is due to the fact that the troops in the field who use the Garand rifle were unanimous in praising it, and that kind of testimony was the kind that critics found very hard to meet.

Senator CONNALLY. The main criticism that I heard, as I recall now, was that it lacked accuracy, that the Springfield was more accurate when used for marksmanship. I don't know whether that is true or not. That is one of the charges I heard.

Mr. PATTERSON. The Springfield rifle was always deemed the most accurate military weapon in the world. The Garand rifle is a thoroughly accurate rifle. It is not, for long ranges, perhaps quite as accurate as the Springfield, but you never have long, long ranges in combat, anyway. It has excellent accuracy for all combat purposes.

The marines, as you know, adopted the Garand rifle last December for standard issuing, having stayed on the Springfield long after the Army had taken the Garand as standard. The marines did that after a very thorough and exhaustive test at San Diego which lasted over a month, in which they tested out Springfield and the Garand and other semiautomatic rifles.

Senator CONNALLY. Do we control the patents on the Garand—

Mr. PATTERSON. Yes, sir.

Senator CONNALLY. Or do other governments control it? I suppose other governments could secure the rights to manufacture the Garands, couldn't they?

Mr. PATTERSON. I can't say, Senator. We have the full manufacturing rights on the rifle. Mr. Garand himself is employed in the Springfield Arsenal.

Senator CONNALLY. It seems to me that if we are to control it, there ought to be patent filings in the foreign countries, because otherwise I don't see anything to keep them from copying it and using it. I suppose if they did, we couldn't do anything about it.

Mr. PATTERSON. No.

Senator CONNALLY. Send a protest through diplomatic channels, which they would get in about 3 months.

Mr. PATTERSON. Well, it is truly a great weapon, and the United States Army—the Infantry of the United States Army—will be the only infantry provided with a semiautomatic shoulder weapon. All

the rest have the ordinary magazine-loading, bolt-action rifles quite comparable to our Springfield.

Senator CONNALLY. I wasn't criticizing. I was just calling attention to the charge that I heard that it lacked accuracy, but I am glad to know that it is accurate.

Mr. PATTERSON. There is no foundation for that charge, Senator. As I said, argument pro and con went on for months, but as the Garands got into production and the troops in the field began to get equipped with them in fair amounts, the reports that came in were wholly in the rifle's favor, and that was the kind of evidence that the critics found it impossible to meet.

Senator CONNALLY. Do they operate with a belt like a machine gun, or a clip, or a chamber?

Mr. PATTERSON. No; a chamber, which holds eight.

Senator CONNALLY. I see.

Mr. PATTERSON. In that respect it is like a Springfield or like the Krag-Jorgensen. It has a magazine there which holds eight instead of five, but you don't have the hand-operated bolt.

Senator CONNALLY. About what caliber is it, do you reckon?

Mr. PATTERSON. Thirty. It uses the same ammunition as the Springfield.

Senator CONNALLY. I see.

Mr. PATTERSON. It has the same muzzle velocity, the same carrying qualities.

Springfield Armory is now producing this rifle at the rate of 1,000 per day, which is a very good production. The Winchester Co. is also in production of the Garand rifle. The famous old 75 is to be replaced for field-artillery use by the more powerful 105-millimeter howitzer. Our light and medium tanks will hold their own in speed, armor, and weapons with those used by any other army. Our combat airplanes are armed with ordnance of the highest effectiveness. I speak of aircraft ordnance here because I am speaking of the Ordnance Department.

Senator CONNALLY. You are speaking of ordnance rather than the armament of the airplanes, aren't you?

Mr. PATTERSON. Yes, sir. The Ordnance Department furnishes the weapons for the Air Corps.

Senator CONNALLY. Are we turning out a good many armored airplanes?

Mr. PATTERSON. We have armor protection for the pilots, which is as far as you can go and as far as anyone has gone, and for the more vulnerable parts.

Senator CONNALLY. Are we equipping any of our airplanes with the so-called cannon ordnance like they have in foreign armies?

Mr. PATTERSON. Yes, sir; 37-millimeter guns carried by pursuit planes.

Senator CONNALLY. About an inch-and-a-half gun?

Mr. PATTERSON. Yes; about.

Senator CONNALLY. All right. Thank you.

Mr. PATTERSON. Balanced armament production does not come overnight, nor does it come within the first half year. It has always been recognized that a major military armament effort for the United States would require the first year to get under way and from 6 months

to a year thereafter to reach full production. The first year of the \$2,000,000,000 armament program ends in September 1941. Barring unforeseen delays the progression into high gear should come with a smooth flow of balanced production about 6 months thereafter.

The new programs, the 1941 fifth supplemental and defense aid, and the 1942 estimates, should follow much the same routine wherever new production facilities are required. In case where repeat orders can be advantageously placed with facilities already in operation, full production will be realized at an earlier date than will be the case with the initial \$2,000,000,000 program.

The Ordnance Department's experience to date justifies the statement that its plans for the mass production of armament were sound. The Department and industry have been working together on designs and on plans for production and new facilities for many years. The Nation is benefiting today and will benefit further tomorrow because of these plans made and kept up to date over the past 20 years.

THE AIR CORPS

Mr. PATTERSON. I will be particularly circumspect in discussing progress under the Air Corps program. Authoritative information on the progress of this program might influence the course of action of the Axis Powers.

Some will say that most of this information is available to the German General Staff in any event. The fact remains, however, that a reliable statement enables a hostile power to concentrate efforts on one type of action, and to take such action with reasonable assurance that it will be fruitful of trouble.

In order that you may have a clear picture in regard to Air Corps expansion, I will briefly outline what has taken place in the past 2 years.

At the beginning of 1939 events transpiring in Europe had so clearly demonstrated the inadequacy of our air strength that Congress authorized an Army air force of 6,000 airplanes and appropriated funds for the procurement of 3,032 of these 6,000. These, together with the planes already on hand or in process of manufacture, would, by July 1, 1941, provide a total of 5,500 airplanes, including 3,300 combat airplanes.

The remoteness of the action in Europe, together with the general belief that the Nation was in no danger were at that time, 2 years ago, effective checks upon action aimed at any acceleration of the manufacturing capacity of our aircraft industry.

One year ago, the lightning advances of the German forces through the Low Countries, and the subsequent fall of France, presaged the vital need for an immediate expansion of our Air Corps. This realization led to the formulation of the present Air Corps expansion program.

The Air Corps expansion program, also known as the 50,000 airplane program, was based upon the President's demand for a total United States air strength of 50,000 airplanes. The first increment of the Army's portion of the program called for 18,000 airplanes. All of this first increment is now in process.

With the aircraft industry hard-pressed to meet the production schedules of the 5,500 program, the announcement of the change to an 18,000 airplane program created a pressing need for additional airplane productive capacity. It also became clear that the existing plants which were manufacturing accessories, engines, propellers, and other parts would have to be expanded.

In September 1940 funds were provided by Congress to be used to accelerate production of then existing contracts, as well as to expedite production on contracts then being negotiated. The Air Corps has provided 45,000,000 square feet of floor space to a hundred manufacturers, subcontractors, suppliers, vendors, and producers; \$721,000,000 has been expended for plants and machine tools under this program. From single-shift production the aircraft industry moved into a two-shift and three-shift schedule as quickly as trained personnel could be made available.

At the start of 1940 the direct manufacturing industry had 12,000,000 square feet of working space, and 60,000 productive employees. Today the industry has doubled the square feet of plant space and trebled its number of employees. This acceleration of production is resulting in an inescapable increased cost of equipment, due to the added cost of overtime, loss of efficiency in second- and third-shift production, and limited efficiency of new and inexperienced personnel. These conditions occur in the plants of subcontractors as well as in the main factories.

In spite of the difficulties attending the expansion, the industry turned out deliveries totaling \$625,000,000 for 1940, against \$225,000,000 for 1939—a 250 percent increase. During the first few months of 1941, 22 manufacturers of military airplanes increased their deliveries 300 percent over the first few months of 1940.

In April 1941 the aircraft industry had a backlog of orders for 40,000 military airplanes. Now we have embarked on a still bigger program. In the Fifth Supplemental Appropriation Act, Congress appropriated funds for about 11,000 airplanes, 3,600 of which were to be built in Government-owned plants. The lease-lend law provides for 10,000 additional airplanes. The Army also has in its 1942 appropriations an estimate for 13,000. That, of course, has now become law. This adds up to 34,000 airplanes, in addition to the 40,000 backlog.

SENATOR CONNALLY. Mr. Secretary, what do you mean by the backlog? Do you mean those reserve orders? You say we have appropriations for 34,000, and then you say “in addition to the 40,000 backlog,” which you mentioned in the first paragraph.

MR. PATTERSON. The 40,000 planes mentioned as a backlog includes Army, Navy, and foreign orders for military planes, and the total program now put as a task upon the producers of military aircraft in the United States calls for the production of 74,000 airplanes.

THE CHAIRMAN. Have we a place to put them down, Mr. Secretary, if we had 74,000 airplanes? Have we fields enough to land them on?

MR. PATTERSON. Yes, sir; we will have by that time. If you take the map of the United States with the air fields either now in operation or planned shown with red dots, it looks as if the United States had a case of measles.

THE CHAIRMAN. That is what it is going to take to put down 74,000 airplanes.

Mr. PATTERSON. Well, the program for expansion of our Army air fields is a huge program. As you know, the Corps of Engineers is charged with the responsibility of doing that work in behalf of the Air Corps.

The CHAIRMAN. I just wondered how they were progressing.

Mr. PATTERSON. I still call it Air Corps from force of habit. I believe the word now is "Army Air Forces." It is no longer the Air Corps.

Contracts must be negotiated not only for these airplanes but for the engines, propellers, and hundreds of other items. Additional facilities must be, and are being provided; there will be a still further stretching-out process of men and management, and a still greater degree of priorities and scheduling.

Execution of these changing programs is a major undertaking. It means expanding the aircraft industry from its peacetime capacity of about 2,000 airplanes a year to considerably more than that number per month. Because of the degree of mechanical perfection required, mass production of aircraft is more difficult than of automobiles. Germany spent 6 or 7 years building her aircraft industry to what it is today. We in the United States are faced with the problem not only of equaling the existing German capacity, but of building up our own air forces and at the same time helping the British to attain air strength with an eventual superiority over German forces.

I have carefully omitted, I think, in this statement, the monthly production of airplanes for recent months, although I see those figures released and in the press, so I don't know why I have to be so circumspect as I have been on this.

Senator CONNALLY. Where did the press get them, Mr. Secretary?

Mr. PATTERSON. I think the Office of Production Management has been in the custom of releasing it. They don't break them down into types, but they show what the military production has been.

Senator CONNALLY. Why should they give them out if the War Department doesn't think they ought to be given out?

Mr. PATTERSON. I don't think the War Department has ever stated to the O. P. M. a policy against it.

Senator CONNALLY. It seems to me as if the O. P. M., though, ought to refer to the Army and ask them. I don't think the O. P. M. has any business taking over all of the functions of government. It has taken over a good many of them now.

Mr. PATTERSON. I don't think we have protested the practice, Senator. We don't give out the figures.

Senator CONNALLY. It seems to me that the War Department and the O. P. M. are not the only places leaking. They have sprung a big leak in the State Department. They find out everything before they announce it. Different wisecracks over the country tell about what is going to happen before they happen.

Mr. PATTERSON. We apparently have grapevines running out of the War Department, too. Quite often I am surprised by finding things in the public press before I have realized that they were ever meant to get to that distribution. I think if we chopped down all the grapevines, why, we would be about like Jack trying to chop off the beanstalk.

Our air force was not to be built up of standard types already in service and under production, but of development types incorporating

all new features learned from first-hand studies of aircraft used in the war. In the light of what has transpired, the decision to buy development airplanes was a sound one. Otherwise we would be furnishing our tactical units with inferior planes, and our pilots would be at a distinct disadvantage.

In keeping with the expanded aircraft facilities and an expanded air force, both as to personnel and equipment, the Air Corps launched a program to construct training stations, air fields, and so forth, and has made excellent progress in this respect.

As may be expected, schools have required greater expansion than any other type of station this year. Sufficient projects have been authorized to bring the total number of school stations to 5 times that of a year ago. During the month of June, construction of 19 new schools was authorized from funds made available by the Congress upon the passage of the fifth supplemental. The total housing capacity of all authorized and existing schools is now 13 times that at the beginning of the year.

At the beginning of the fiscal year existing facilities permitted an output of about 2,000 pilots per year. Subsequently, rapidly expanding facilities permitted an increase to the rate of an output of 12,000 pilots per year. At present the current expansion program, which is being expedited to the utmost, will insure training of 30,000 pilots per year. In addition, technical training schools will produce 100,000 qualified mechanics every 12 months.

The number of tactical stations has been increased to more than four times the number in existence 12 months ago, while housing capacity has increased to eight times that of a year ago. Nearly all of the new tactical locations have been approved for occupancy.

The number of overseas stations has been tripled. Besides the regular overseas stations, there are numerous new Air Corps locations outside territorial United States.

The depots or supply stations have doubled in number, and a further increase has been authorized.

Miscellaneous stations, such as bombing ranges and other locations not described above, have more than doubled in number, and the total housing capacity has increased 700 percent.

When the National Guard was called into service, 21 observation squadrons were brought up to strength, and necessary housing facilities were provided. Many of these squadrons, where climate permits, have been housed in tents, but construction of temporary barracks has been authorized in some cases.

Mere mention of the number of stations does not comprehend all landing fields regularly used by the Air Corps. Each station may have available several auxiliary fields. Many municipal airports have been improved by W. P. A. funds to meet Army needs through projects sponsored by the War Department. There are numerous Air Corps detachments scattered throughout the country. Arrangements have been made for the housing and training of some 8,000 British pilots.

We are doing all within our power to get airplanes rolling off assembly lines. But there is no magic wand that can bring airplanes by the hundreds out of the factories. "Tooling up" is popularly thought of as applicable to machines, but it is equally applicable to equipment, materials, procedure, men, and management. It has a new meaning, and is being speeded up to the maximum, but production must still

wait on construction. Though this process of necessity operates against immediate deliveries of the finished product, it will pay in the end in quantity and quality production.

Our present problems may be dwarfed by future ones if the present international situation continues, but I have confidence in our ability to make the grade. We are now beginning to get dividends in the airplanes now on production lines, with increased fire power, armor plate, improved fuel systems, power turrets, and leak-proof tanks, of performance and combat effectiveness equal to or superior to any in the world, and from now on the rate of production should steadily increase, as the effect of our expansion program comes to be felt.

I am not free to give you the exact figures on the delivery of military aircraft from American factories. However, you will have an understanding of the increased delivery of military aircraft of all types when I say that such deliveries for the second quarter of 1941, ending June 30, were seven times those of the first quarter of 1940, and double the deliveries of the fourth quarter of 1940.

As our new facilities come into production during the ensuing 6 months and as materials and equipment are made available, I think I can safely assure you that production will continue to increase as it has during the past 18 months.

QUARTERMASTER CORPS

Mr. PATTERSON. Our Quartermaster Corps is charged with a variety of duties. It has had in its charge a great portion of Army construction. This applies to both cantonments and industrial plants, although the Corps of Engineers handles Air Corps construction and certain construction in Alaska and the island bases and coast defenses. In addition, the supply of clothing and equipage falls to the Quartermaster Corps, as does subsistence of the Army and the Army's transportation, both by sea and land.

I shall first cover construction. There were 250 construction projects placed under the direction of the Quartermaster General, which will entail the expenditure of \$1,900,000,000. This construction may be divided into the following general groups: Troop housing, general hospitals, ordnance manufacturing plants and storage depots, general storage depots, chemical warfare plants, and miscellaneous projects.

The 1941 housing program for troops contemplated new facilities to care for the housing of 1,274,000 men (that number is somewhat under the strength of the Army because we had permanent housing for some of the troops), of which 500,000 was required on March 1 and most of the balance by June 30 of this year. Fifty thousand seven hundred and eighty buildings and 99,700 tent frames were required to provide this troop housing. The estimated cost of these facilities is \$851,645,000. The task assigned to the Corps has been carried out on time. In fact new facilities for 715,000 troops were available on March 1, and for 1,230,000 troops on June 30.

There has been criticism of the cost of cantonment construction. You will recall, however, that the Quartermaster General did not receive authority to proceed until the latter part of September 1940,

with winter weather approaching and the Selective Service Act being immediately put into effect, and with the National Guard troops about to come into Federal service. You will also recall the rise in labor and material costs, and the fact that the Army estimates were, as Congress was informed at the time and as it turned out, insufficient. This was partly due to increases in facilities above the original plans. The War Department did not have detailed plans and specifications for the major cantonment projects. Time did not permit full engineering investigation of some of the sites selected. This necessitated the letting of contracts upon cost-plus-fixed-fee, which, I acknowledge, is a more expensive form of contracting than an award upon lump-sum competitive bids.

In your investigation to date you have examined into perhaps half a dozen cantonments where particular difficulties were encountered. Of course, there were some difficulties everywhere. There is no such thing as a perfect site, and construction on a vast scale is never free of mistakes. Some of the contractors whom the War Department engaged and relied upon did not come up to the standard expected of them. Some of the constructing quartermasters, under the pressure of speed, did not use good judgment. Outside suppliers of materials in some instances overreached us. But taken as a whole, the cantonment construction job was well and speedily accomplished. I call your attention to the fact that the military objective was attained on time. An Army on paper last September is adequately housed today. Had time—which we could not spare—been consumed in more complete planning and more exact contracting, we would have saved money, but an unprepared America in this time of need is a cost so great that I would not venture to compute it.

The current expansion of the Army has necessitated construction of 9 general hospitals with a total capacity of 9,500 beds. These hospitals are for those cases requiring general or protracted hospitalization and are separate from the usual hospital facilities constructed in connection with a camp. This program requires the construction of 760 buildings, of which 665 were ready for occupancy in June. The total estimated cost of these hospitals is \$21,101,000.

The construction of the 24 presently authorized ordnance manufacturing plants involves the expenditure of \$484,440,000. Twelve additional ordnance facilities are now being authorized, to cost \$300,000,000. Major extensions to plants have recently been authorized at an estimated cost in excess of \$125,000,000. This entire program for ordnance manufacturing plants will require the construction of approximately 6,400 buildings, most of which are of a permanent type.

SENATOR CONNALLY. Right there, Mr. Secretary, on this building of plants, are those funds expended by the War Department direct, or does that go through the R. F. C.?

MR. PATTERSON. These are direct, all direct.

SENATOR CONNALLY. Haven't they a Plant Construction Division over in the R. F. C. where they are supposed to loan money—rather, give money—for the plants?

MR. PATTERSON. Yes, sir; roughly as you say. Under legislation passed in June of 1940, the Reconstruction Finance Corporation organized a subsidiary company, called the Defense Plant Corporation, with power to build munitions plants. That plant was operated by

Mr. Jones and Mr. Schram and their associates mainly to build plants that have an industrial or a semi-industrial aspect and mainly for the Air Corps. For example—

Senator CONNALLY (interposing). Is there coordination between the War Department and that agency? They would not loan the money or give it unless you approved it?

Mr. PATTERSON. That is right. There is complete coordination. They don't budge until the War Department goes to them and says, "A company producing valves and pumps for airplane engines needs to be expanded if we are going to have airplane engines in the increased quantities we need them. Please give us aid in getting the expansion of that plant brought about." The Defense Plant Corporation then acts upon plans approved by the Air Corps for the number of square feet and equipment, type of building, and so forth, and it makes a contract with the manufacturer whose plant is being expanded to build the plant, construct it and lease it to that manufacturer for 5 years, at the end of which time he has an option to buy the plant at cost less depreciation. The War Department not only asks for and sponsors that project, but it also agrees with the Defense Plant Corporation, in the normal case, to pay them 40 percent out of regular direct appropriations given by Congress to the War Department to buy new facilities, so that we have been paying that 40 percent and the Defense Plant Corporation carrying the other 60 percent under the authority given them last year, and then it was increased this year—I think in April—when Congress passed an additional act authorizing the Defense Plant Corporation to continue that activity. But these I mention in here have nothing to do with that.

Senator CONNALLY. AS I understand, sir, those projects have been confined to projects that have an industrial character, where there is a possibility of utilizing them after the war is over.

Mr. PATTERSON. Yes, sir; for ordinary civilian use. The straight military plants have always been handled by the War Department, the Ordnance Department, and the Construction Division of the Quartermaster Corps cooperating in the construction of those plants.

In addition to the foregoing, the Quartermaster General has been constructing 5 ammunition storage depots, 21 general storage depots, 10 chemical warfare plants, and various medical and ordnance field-service facilities.

Contracts for construction work placed between July 1, 1940, and June 13, 1941, exceed \$919,787,630 in value. This total was awarded as follows:

Advertised lump-sum contracts	\$153, 340, 262
Negotiated lump-sum contracts	42, 622, 161
Fixed-fee architect-engineer contracts	17, 532, 908
Fixed-fee construction contracts	706, 262, 299

The average fee paid the contractors on construction contracts has been 3.3 percent of the original estimated cost. Congress had authorized fees up to 6 percent. The average fee paid for architect-engineer service has been approximately 1 percent of the original estimated cost.

Some months ago, I fixed maximum fees, which could be allowed under ordinary circumstances for architectural and engineering services and for construction under the fixed-fee form of contracts. More

recently a board of general officers and distinguished civilians at my direction reviewed the established maximum fees and recommended that these maxima be somewhat reduced. I approved their recommendations, and the construction contracts now going forward are being let, such as they are, on a cost-plus-fixed-fee on a reduced fixed-fee basis.

Senator CONNALLY. You are speaking of the engineering and supervision of the architects. Is that right?

Mr. PATTERSON. No; the building contract.

Senator CONNALLY. Oh.

Mr. PATTERSON. I don't think they made much of any change in the recommended fixed fee for architect-engineer work. The reduction that I just mentioned was in the fee to be paid the general contractor.

Senator CONNALLY. In erecting a good many of these munitions plants, you employ an engineering architectural organization to plan the set-up, I suppose?

Mr. PATTERSON. Almost always.

Senator CONNALLY. And then you let a contract for the actual construction of the building.

Mr. PATTERSON. Yes, sir.

Senator CONNALLY. Does the engineering firm let that contract or does the War Department?

Mr. PATTERSON. The War Department. We make in general two contracts for each project, one with a concern of architect-engineers for the designs, plans, and specifications, and one with a concern in the building and construction business for the actual construction of the plant.

Senator CONNALLY. The case comes to my notice—it is under my notice, in fact, because it is in my State—as I understand, of the proposed shell-loading plant at Texarkana, Tex., for which the War Department gave the contract for the engineering and architectural work to the Goodrich Rubber Co. I believe it was Goodrich—Good-year, maybe.

Mr. PATTERSON. Goodrich.

Senator CONNALLY. Goodrich. Well, what qualifications did they have for that sort of thing? Why were they selected? Do you know?

Mr. PATTERSON. Yes, sir; I can explain that. On the ordnance plants, such as shell-loading plants—that is a shell-loading plant—a few months ago we adopted the policy of picking an operator for the plant, a private concern, to operate that plant and load the shells after it was constructed. The policy was then adopted of having one prime contractor to assume full responsibility for the construction and operation of the plant. In general, that prime contractor has the building done by a building contractor approved by the Quartermaster Corps, but it is strictly a subcontract under the prime contractor who is to operate the plant after it is built. Similarly, he makes a subcontract with architect-engineers approved by the Ordnance Department.

The whole point of that, Senator, was to fasten responsibility on some one concern to do that job, and then for the building and for the architect-engineering they could subcontract that out with concerns approved by the Ordnance Department and the Quartermaster Corps. What was aimed at was this: That if production was not up

to expectations in that plant and we upbraided the operator for not doing as well as we expected, we didn't want him to be in a position to say, "It was a bum plant you gave me in the first place. No one could do anything with such a plant as this." We wanted to have him stopped from making any such contention, and we could say, if he made such a statement as that, "Well, you were in on the construction of this. Why didn't you say so at the time?"

Senator CONNALLY. In this particular case, is the Goodrich Rubber Co. going to run the shell-loading plant afterwards?

Mr. PATTERSON. Yes, sir. I don't suppose they are going to actually do the architecting and engineering, but they are responsible for it to us.

Senator CONNALLY. In other words, they will be responsible for the architecting and engineering with one subcontract, and then another subcontract for the building of the plant.

Mr. PATTERSON. That is in general the plan, but you take the powder plant that we had out in Charlestown, Ind., with the du Pont Co., there they actually did the designing, building, and all operation, but that is unusual.

Senator CONNALLY. What I mean in this case, though, is that they will be responsible, whether they do it or not, for the architectural and engineering, and then they will probably sublet the building contract, and then they will operate it. Is that true?

Mr. PATTERSON. Yes, sir.

Senator CONNALLY. The Goodrich Rubber Co.?

Mr. PATTERSON. Yes, sir.

Senator CONNALLY. What were the peculiar qualifications that the Goodrich Rubber Co. had to run a shell-loading plant? That is what I want to know.

Mr. PATTERSON. General industrial success over the years in the making of tires and other products.

Senator CONNALLY. Was this a negotiated contract?

Mr. PATTERSON. Oh, yes.

Senator CONNALLY. Who negotiated it, if you don't mind telling?

Mr. PATTERSON. The Ordnance Department.

Senator CONNALLY. Did General Wesson negotiate it?

Mr. PATTERSON. I think General Harris; he is in charge of that under General Wesson. It was done under a policy dictated by me, after consulting with the Ordnance Department and having their concurrence in it. Last summer we were faced with this situation. We had to build a great number of plants to make smokeless powder, small arms ammunition, to load shells, and so forth. We had in this country just three explosive companies—the du Pont Co., the Hercules Co., and the Atlas Co.—say four, the Trojan Co., too. But we had far more plants than that to be put up and to be operated, and we spread those companies out as thinly as we could safely do, and still we had a great many plants to be operated. There were various people who came forward and wanted to operate those plants for us, people without an particular industrial experience or they were individualists, at any rate—they didn't have a going concern—and it seemed to us that the best policy we could adopt as to those other plants was to take concerns with a long record of industrial success and that if a concern had proven over the years that they could make

their products with efficiency and successfully and that they understood the art or the science of industrial production, they could, through their team management, perform for us most effectively on these ordnance plants.

Now, it is true that the Goodrich Co. and the Goodyear Co. and the Procter & Gamble Co. and the Coca-Cola Co.—

Senator CONNALLY (interposing). Coca-Cola Co.?

Mr. PATTERSON. Yes, sir; and quite a number of others could not have loaded shells or done any bag loading.

Senator CONNALLY. Coca-Cola has loaded a lot of people, but I don't know that they have loaded a lot of shells. [Laughter.]

Mr. PATTERSON. They have loaded a lot of bottles.

I think your inquiry was a natural one as to Goodrich Co. doing that work in Texarkana, but that seemed the best solution for a vexing problem that we had.

Senator CONNALLY. I can understand the reasons that you set forth there, and they are very cogent, as any reason advanced by a man of your ability and legal background would be. Those motives, though, that made them successful because they were going to make a lot of profit, don't necessarily apply. I don't mean to impugn their integrity, but this is a negotiated contract; they are going to get the same fee, no matter how they operate it.

Mr. PATTERSON. Yes; it is a fixed fee.

Senator CONNALLY. Mr. Amberg, I don't expect you to do it now, but could you later tell me how much fee the Goodrich Co. is going to get out of this?

Mr. AMBERG.¹ Yes, sir.²

Mr. PATTERSON. I don't think the contract has actually been signed. I think you mean the contemplated fee, and that can be furnished.

Senator CONNALLY. Yes, sir. I would like to know how much they are going to get. They are going to let these contracts for the construction of this building. There is a big complaint over the country—I don't know whether it is justified or not—that the little contractors can't get any subcontracts, can't get in on these big ones, because they are not powerful and haven't had the background of operating big plants. Has the War Department any policy that it urges on these people like Goodrich Rubber Co. to give these smaller contractors subcontracts, even in the construction work, to build certain units, and so on?

Mr. PATTERSON. We have a fixed policy of placing work with concerns in the localities. You take in camp construction—that is almost the universal rule to place the work with local contractors. In this kind of construction—ordnance-plant construction—we cannot apply that policy to the same degree, because very frequently we get into communities where there is no contractor experienced in that type of production, but where there is a contractor in a more distant State who has built that very type of plant.

Senator CONNALLY. It couldn't have been built in any of them, because you said there were but three or four in the United States.

Mr. PATTERSON. They built chemical plants.

¹ Julius H. Amberg, special assistant to the Secretary of War.

² In a letter, dated July 16, 1941, Mr. Amberg submitted the information to Senator Connally.

Senator CONNALLY. Well, yes; similar ones, not exactly. I understand that this Goodrich Rubber Co.—while you haven't made a contract, you are going to, of course—has already indicated who it is going to give these other contracts to. Do they have to be submitted to the War Department for approval, or does the Goodrich Rubber Co. make those contracts?

Mr. PATTERSON. They can't make them without the concurrence, in the case of the architect-engineer, of the Ordnance Department; and in the case of the building contractor, the concurrence of the Quartermaster Corps. They don't have the say-so about that alone.

Senator CONNALLY. When you tell me about the fee, will you tell me who is going to get the contracts from Goodrich? I suppose it has already been determined. It has been whispered all around.

Mr. PATTERSON. They don't have uncontrolled choice of who those two people are going to be.

Senator CONNALLY. I understand they have picked them, and I assume you folks will approve them—I don't know. That is what I am trying to find out.

Mr. PATTERSON. I think in most cases it is the other way.

Senator CONNALLY. You folks pick them and they approve?

Mr. PATTERSON. Yes sir.

Senator CONNALLY. Of course, you have the final responsibility in any case. Naturally, you have to approve them.

Mr. PATTERSON. Yes, sir. I think the program reads, though, that, for instance, the building contractor will be selected by the Quartermaster Corps "with the concurrence of the prime contractor." I think that is the way it reads. We have had some cases of disagreement between the prime contractor and the Quartermaster Corps on that head.

In establishing maxima it was not my intention that the maxima should be paid in every case, but rather that the fee in each particular case be arrived at by negotiation, based on the services required by the contract and in an amount equitable, reasonable, and to the best interest of the United States.

I turn to clothing and equipage. On July 1, 1940, clothing and equipage stocks were entirely inadequate to meet the requirements of the expanded Army. Approximately 9 months are required to convert dollars into appreciable quantities of clothing and equipage. Troops were supplied during the first 9 months of fiscal year 1940 by initiating procurements on letters of intent prior to the availability of funds, executing short-term contracts for limited quantities as rapidly as cloth became available, purchasing all excess stocks of the C. C. C., and utilizing all excess clothing and equipage in the hands of the National Guard and that left from World War No. 1. The troops were warmly clad and provided with the necessary personal equipment during the early months of the current mobilization. By March 1, 1941, production of clothing had reached a point at which it was possible to withdraw all obsolete clothing. This was done, except in the case of overcoats, which will be withdrawn this fall. Stocks of clothing and equipment are now on hand in sufficient quantity to maintain the current Army, and existing contracts will provide for the orderly replacement of such stocks. This program of supplying clothing and equipment has been accomplished through appropriations totaling

\$672,348,997. To date all of these funds have been obligated except a small amount reserved to cover overruns on contracts and increased prices on a few awards still pending.

I know that you are interested in the soldiers' subsistence. On July 1, 1940, all perishable subsistence was purchased by individual posts, camps, and stations on indefinite quantity contracts. The majority of nonperishable subsistence supplies was purchased by 9 quartermaster purchasing depots. The tremendous expansion of our Army necessitated a change in purchasing methods to assure the procurement of adequate quantities of desired subsistence supplies in an economical and efficient manner. Twenty-nine quartermaster market centers were established, strategically located throughout the United States, for the purchase of fresh fruits and vegetables. The new plan went into effect for most Army posts of over 2,000 men on May 1, 1941. Nonperishable subsistence has been centralized in 3 procuring depots, and distribution is effected either directly to the posts or through the 9 distributing depots. During the time that this plan has been in effect reports from the field, from industry, and from producers indicate that it has been successful, substantial savings have been made, and deliveries of ample quantities of fresh fruits and vegetables and other subsistence supplies have been made to the posts as well as to troops engaged on maneuvers. It is anticipated that approximately 15 percent of the soldiers' ration will be expended for fresh fruits and vegetables, thus assuring an ample supply of essential vitamins and minerals. I can say without hesitation that ours is the best-fed army in the world.

For the fiscal year 1940 the subsistence appropriation was \$35,018,753, or approximately \$95,680 per day. For the fiscal year 1941 the total subsistence appropriation amounted to \$147,367,238, or approximately \$403,746 per day, and for the fiscal year 1942 the appropriation bill contains a subsistence appropriation of \$263,689,382, or approximately \$722,437 per day.

Facilities for transportation of the Army by water have been augmented. On July 1, 1940, there were 12 stations that received service from the Army transports. During the fiscal year 1941 approximately 15 new stations have been added to the ports of call. On July 1, 1940, there were 10 transports operated by the Army Transport Service. During the next year 19 new vessels were acquired and 21 vessels chartered.

The harbor boat service had 306 vessels on hand on July 1, 1940. The procurement program for fiscal year 1941 called for an additional 564 boats. Most of this program has been completed.

In order properly to man and operate the transports and harbor boat service, the number of civilian employees has been increased from 2,662 on July 1, 1940, to 5,729 at the present time.

This program has been accomplished by an expenditure of \$49,903,706, as compared with an appropriation during fiscal year 1940 of \$9,470,764.

Motorized transport for our troops is, of course, of prime importance for the present-day mechanized army.

On July 1, 1940, a total of 29,867 vehicles was on hand. During the present year \$296,176,061 was appropriated for motor vehicles, and it is estimated that a total of 233,084 vehicles will be purchased. Con-

tracts have been entered into at the present time for a total of 209,541 vehicles, 103,395 of which have been delivered. After completion of purchase and delivery of vehicles for which funds are now available the total number of vehicles on hand will be 262,951, which will provide initial equipment for all active units and requirements for administrative purposes at all Army posts.

CORPS OF ENGINEERS

Mr. PATTERSON. The Corps of Engineers has in charge the procurement of certain specialized equipment for the Army. It also has charge of construction of seacoast defenses. In November 1940 it was given the additional duty of construction at Air Corps stations, including air bases, pilot-training schools, air depots, and industrial facilities. It was likewise assigned the construction work in the outlying bases leased from Great Britain and the construction in Alaska.

Total appropriations for the purchase of engineer equipment for the fiscal year 1941 were \$91,704,601. Four million three hundred and twenty-six thousand four hundred and eighty dollars additional was appropriated for the purchase of seacoast-defense supplies; 99 percent of these funds have been obligated and 70 percent of this equipment has been delivered at this date.

There were 24 partially equipped Regular Army engineer organizations in service in June 1940, their equipment being deficient in some critical items. Nineteen National Guard organizations were active, with little in the way of equipment. On June 15, 1941, there were 89 active engineer organizations in the field, fully equipped with essential items. They lacked only a few recently developed or approved equipment items. Delivery of these items to troops is expected to be made prior to the Army maneuvers this year.

Antiaircraft searchlights are a major item of supply by the Corps of Engineers. The number available at this time is approximately four times the number available a year ago, and deliveries are being made in a satisfactory manner. In this connection it may be noted that it was necessary to increase the available production of searchlight mirrors approximately 500 percent. This has been done by the construction of a Government owned and operated plant and by increasing the capacity of existing civilian facilities.

I shall now mention Air Corps construction by the engineers. Under authority of Public, 781, Seventy-sixth Congress, the Secretary of War, on November 20, 1941, assigned to the Corps of Engineers the responsibility for all construction at Air Corps stations with the exception of those located in the Panama Canal Zone. On November 29, 1940, there were 81 Air Corps construction projects designated for transfer to the Corps of Engineers, practically all of which had been transferred by January 31, 1941.

In addition to these projects new stations have been approved for construction from time to time, bringing the total to 118 as of May 31, 1941. Of these active projects in various stages of completion, 93 are in continental United States and the remaining 25 are divided between Alaska, the insular possessions, and the eastern bases. Of the 93 stations authorized in the continental United States, 53 have been sufficiently completed for limited occupancy and use, representing an in-

crease of 21 occupied stations since February 1, 1941. Although in many instances the stations are now occupied by Air Corps units, additional construction of housing or technical facilities has been initiated in order to meet increased requirements.

A total of \$638,969,811 has been made available to the Corps of Engineers for Air Corps construction. Of this amount, approximately \$490,000,000 has been obligated. Forty-two percent of the total construction authorized to May 31, 1941, exclusive of the overseas bases, has been completed and is in place. The cost of work performed on these projects as of May 31, 1941, exclusive of costs incurred by the constructing quartermaster, amounted to \$84,196,233. The cost incurred by the constructing quartermaster on these projects prior to the date of transfer to the Corps of Engineers amounted to \$61,513,000.

We have done considerable work in improving our seacoast defenses. The increased activity by the Corps of Engineers in seacoast fortification work may best be expressed by reviewing the appropriations made available to this Department over a period of 4 years. Total seacoast defense appropriations for the fiscal year 1938 totaled \$2,010,551; for the fiscal year 1939, \$3,049,871; for the fiscal year 1940, \$7,650,740; and for the fiscal year 1941, \$26,377,743. Anticipated engineer funds for coast-defense work in fiscal year 1942 total approximately \$44,000,000.

The construction of bombproof seacoast defense batteries, including both major and minor calibers, was initiated during the current fiscal year. Major and minor batteries located on the Pacific coast, the construction of which was started in the fiscal year 1940, are now nearing completion or have been completed.

In addition to the battery construction mentioned above, numerous projects such as ammunition storage structures in Puerto Rico, Panama, and Hawaii, bombproof shelters for important fire-control command posts, Aircraft Warning Service message centers, roads and trails for mobile battery positions and searchlight positions, and fire-control structures of all types were carried on.

During the fiscal year 1942 the battery construction program is to be stepped up. Additional major and minor caliber batteries are to be initiated, and, in addition, some of the existing batteries are to be provided with bombproof protection. It is expected that the batteries now under construction will all be completed during the coming year. This program has been coordinated with the other branches of the service so that the engineer work will not be completed too far ahead of the work of other departments. Fire-control construction, ammunition storage facilities, and other similar work will also increase materially.

In my report as to the work of the Corps of Engineers I have omitted any detailed reference as to operation at the bases outside the continental limits of the United States. It is the view of the War Department that the work which is being done at the bases should remain in large degree secret. Therefore, I feel a discussion should not take place in this public session.

The Corps of Engineers is also engaged in planning and development for other branches of the Army and for protection of the civilian population. In accordance with a War Department directive, the Chief of Engineers has been studying methods of protective construc-

tion for the civilian population which might be needed in case of air attack. All available European information has been digested and collated; structures to give protection against near misses and direct hits have been designed, constructed, and tested by actual bombing.

In addition, type plans for the protection of air-base facilities, bombproof hangars, control rooms, power houses, and other structures have been prepared. Plans for the protection of gasoline supplies by dispersion and by protective construction have also been prepared. A continuation of this study will be made during the coming fiscal year in close collaboration with the air force.

Steel machine-gun emplacements have been tested and new types developed for use at air fields and other points where tactical requirements dictate such defenses.

Upon the request of the Chief of the Air Corps, studies have been made on portable steel landing mats leading to the development of a type for laying on a field otherwise not suitable for the landing of military aircraft. Three successful types have been developed which are suitable for use by heavy bombers but are considered too heavy for use on fields on which pursuit ships and light bombers are to land. Tests are now being made on other types which will be adequate for the lighter military aircraft and which will have the advantage of lighter weight and ease of placement.

SIGNAL CORPS

Mr. PATTERSON. The Signal Corps functions have a far wider scope than the mere wigwagging of flags implied in its corps insignia. The Chief Signal Officer is charged with the procurement of all communications equipment used by all branches of the Army, whether it be by radio, by wire, by carrier pigeon or by visual signal. It also obtains meteorological and photographic equipment.

The most important and expensive matériel assigned to the Signal Corps relates to communication by radio, and one of the most important types of radio equipment relates to aircraft. Every airplane, except certain training planes, is equipped with a radio command set, a low-power receiving and transmitting radio set which enables communication between airplanes for purposes of direction. All bombardment and transport planes, in addition, have a radio liaison set, a low- or medium-power receiving and transmitting radio set, which in one type has a range as great as 2,500 miles, for use in communication with other airplanes, or with vehicular or other ground points. The bombardment, transport, and advanced training planes are also equipped with a radio compass, which is a dual remote-control radio set, to be operated by either pilot, for ascertaining the location of the plane with reference to ground radio stations. For use with aircraft there are also receiving and transmitting ground sets, some of which are built into trucks and trailers for mobile use, for communication from ground to plane. Airplanes are also provided by the Signal Corps with interphone equipment, for communication within the plane.

In July 1940, there was being delivered monthly \$500,000 in cost of aircraft equipment. There was no stock on hand, outside of insignificant amounts delivered to the services and installed in planes. The programs for the fiscal year 1941 called for an expenditure of

\$103,742,000 for this type of equipment. By June 21, 1941, aircraft equipment costing \$11,521,475 had been delivered. The 1942 program, as thus far approved, will call for about \$208,000,000 more to be expended on this matériel, and it is expected to reach an ultimate rate of delivery amounting to \$12,000,000 in value of aircraft radio and interphone equipment each month.

In present-day warfare, radio equipment is also needed in combat vehicles. Tanks and armored cars are designed to be equipped with receiving and transmitting vehicular radio sets provided by the Signal Corps, issued to the armored force, Cavalry, Field Artillery, and Signal Corps units for communication between vehicles and with ground stations and aircraft. These sets are of varying power and able to communicate with each other in column or with headquarters located many miles distant. Tanks are also provided by the Signal Corps with interphone equipment.

On July 1, 1940, there was no vehicular radio equipment on hand unissued to troops; new units were being delivered at the rate of \$115,000 per month. The programs for the fiscal year 1941 called for an expenditure of about \$41,000,000 for this type of equipment. By June 21, 1941, vehicular radio equipment costing \$5,270,230 had been delivered. The 1942 program as presently approved calls for \$6,825,000 more to be expended for this type of equipment, and an ultimate delivery is expected at the rate of \$3,000,000 in value of vehicular radio equipment each month.

There is also need for portable ground equipment. Portable ground radio sets, both transmitting and receiving are procured by the Signal Corps for issue to the Infantry, the Cavalry, and the Field Artillery, and so forth. These sets vary in power and portability from the lightweight sets carried by parachute troops to the heavier and more bulky set carried by man pack or by truck.

On July 1, 1940, there was none of this equipment on hand other than that in hands of troops, and a monthly rate of delivery of equipment costing \$62,000. The 1941 fiscal year programs called for an expenditure of \$38,000,000 for this type of equipment, and by June 21, 1941, ground equipment having a value of \$4,881,895 had been delivered. The 1942 program thus far approved calls for the expenditure of an additional \$789,000 under this head, and it is expected to reach a delivery rate of \$3,400,000 in value of ground radio equipment each month.

There remains a type of radio equipment which has received much public notice of late—aircraft and surface vessel locating equipment. Not much can be said of this important part of the radio equipment procured by the Signal Corps, because of the necessity for secrecy. Certain secret ground apparatus already under construction under the 1941 program is included in the figures given above for portable ground equipment. A further expenditure of some \$118,000,000 for aircraft equipment of this nature is included in the \$208,000,000 previously mentioned as already approved for the 1942 aircraft radio equipment program. Suffice it to say that the equipment now being delivered is the equal of that in use by any foreign power and is a powerful asset to the defensive system of this country.

Communication by wire remains important to the Army, in spite of the great development of radio communication. Wire cable of various kinds is needed by front-line units, in addition to heavier types of field

wire for communication over longer distances. In addition, there are various portable field switchboards and field telephones required. The switchboards vary in size from the small monocord type used by assault units to the larger portable type which approach in size those used in large commercial exchanges.

On July 1, 1940, there was a stock of wire cable and wire communications equipment of \$1,500,000, with monthly delivery of \$66,000. The 1941 fiscal year program called for the expenditure of \$32,500,000, and by June 1 equipment costing \$3,853,248 had been delivered. A monthly delivery is expected of \$2,300,000.

In addition, a considerable amount of miscellaneous equipment, such as flags, panels for signaling airplanes, codes, ciphers, and wire cards and meteorological and photographic equipment, has been ordered and received, while the homing pigeon, in spite of all modern inventions, is still a valuable messenger in charge of the Signal Corps.

The entire programs of the fiscal year 1941 for procurement by the Signal Corps totaled over \$223,000,000, and the 1942 program thus far approved will add another \$221,000,000. To date, material costing \$25,771,544 has been delivered, and a total monthly delivery rate of communications equipment costing \$21,500,000 is in sight. In estimating the progress in procurement in the communications field, it is the building up of the capacity for production of military equipment that is most important. It is noteworthy that the small existing stock of communications equipment has been increased by a delivery of \$25,750,000 in new equipment. But it is more significant that a capacity for production of such equipment amounting to less than \$750,000 a month in June 1940 will shortly have become a capacity for \$21,500,000 a month. It is this rate of production which will eat up the balance of the 1941 fiscal year program and any increases which may be approved for 1942 and succeeding years.

This result has been achieved largely by education of the existing huge communications industry to make equipment suited to military needs. Only one facility to date has been enlarged at public expense under the sponsorship of the Signal Corps; to wit, the erection of a plant for the construction of special type of radio equipment. In addition, a plant is under construction for the manufacture of carbonyl E iron powder used in electrical cores, and three plants for the manufacture of the new light assault wire. Expansion is also planned for the ceramics industry in the manufacture of insulators. All told, the total cost to the public of the expansion in production capacity of the communications industry, so far as now planned, will probably not much exceed \$3,500,000.

CHEMICAL WARFARE SERVICE

MR. PATTERSON. The work of this service relates not only to defense against gas attacks, but also to the use of chemicals in offense.

On July 1, 1940, the Edgewood Arsenal in Maryland was the chief source of chemical items. There was one other gas mask assembly plant. At the present time there are three large standard service gas mask assembly plants and five noncombatant mask assembly plants. All these eight plants can assemble training masks. Needs of the sol-

diers for gas masks can now be fully accommodated, although facilities would have to be greatly expanded if civilian defense needs became acute.

Impregnated charcoal, known as whetlerite, for use in gas masks, previously manufactured solely at a small unit in the Edgewood Arsenal, is now available at four new plants. In addition, private industry has increased its capacity severalfold. Facilities for the production of soda lime have likewise been expanded. New facilities are also in operation for the production of other gas mask components, such as canisters and molded face blanks. Protective chemicals and ointments of a secret nature are to be produced in plants now under construction.

Facilities for production of offensive chemical items are being added at the Edgewood Arsenal, while new production plants are at the present time approximately 70 percent complete. Additional facilities may be required.

Every soldier now in training actually has with him at all times a training gas mask, and every soldier in the armored force also has a dust respirator. In addition, there are now on hand sufficient battle gas masks to equip the maximum Army now authorized. This supply was largely accomplished during the last fiscal year, as on July 1, 1940, only 5 percent of the training masks and less than 25 percent of the battle masks were on hand.

Protective chemicals are now under procurement and decontaminating apparatus is on hand sufficient to safeguard the present Army. Less than 10 percent of this was in stock at the beginning of the fiscal year.

As to offensive chemical agents, one-half the quantity eventually needed is on hand.

As in the case of the Ordnance Department, the educational order program authorized by the Congress has proved invaluable in the construction of the specialized facilities needed for chemical warfare. This program was confined entirely to defensive items, and all such contracts were awarded to firms which had never before produced the particular item concerned. In all, 22 plants or units were constructed under this program.

There are 15 plants being constructed for the production of protective chemicals, and Edgewood Arsenal is also being rehabilitated. The normal priority preference rating of Chemical Warfare Service contract items is just above that of unrated civilian supply needs, and this low priority rating and the scarcity of certain construction materials are delaying several of these projects.

MEDICAL DEPARTMENT

Mr. PATTERSON. The health of our troops is, of course, a prime consideration. We desire to take every advantage of medical science in the care of our troops, both in camp and in field operations. If war should occur, we must also be equipped for surgical care of the wounded.

The War Department, with the augmentation of the Army authorized in the summer and fall of 1940, faced the problem of procuring

a proportionate increase in medical supplies. Thus, station hospital beds were expanded from 14,000 to 73,000. A like increase in surgical instruments and supplies and in ambulances became necessary.

Disruption of world trade made the procurement of certain crude drugs difficult; however, the Treasury Department has procured a considerable quantity of quinine which our Medical Department is storing, and the Surgeon General has procured quantities of opiates.

In order to handle the large quantity of supplies needed, it became necessary to open three new active depots at Chicago, Toledo, and Savannah, and to expand the four previous depots located at New York, St. Louis, San Antonio, and San Francisco.

The procurement program authorized for the fiscal year has been contracted and deliveries are being made as rapidly as possible, although some are running behind schedule because of difficulty in obtaining raw materials or semifinished parts, or for other reasons. New manufacturing equipment had to be installed in some instances, and almost all of this equipment is now in place and manufacturers are progressing with the training of new employees. There has been some difficulty in obtaining an adequate supply of highly skilled workmen required in the manufacture of surgical instruments.

The application of the priority and inventory control systems of the Office of Production Management has made possible a more equitable distribution of strategic and critical materials needed by manufacturers of medical supply items. This is particularly true in the case of aluminum for litters and operating lamps, and corrosion-resistant steel for surgical and dental instruments. Forty-eight items of interest to the medical service have been placed on the Office of Production Management's priorities critical list. In addition, General Metals Order No. 1, issued on May 1, placed seven classes of metals and metal products used in Medical Department equipment under strict inventory control.

As early as 1939 the Surgeon General foresaw the need for closer cooperation between the department and the manufacturers of supply items. He, therefore, established advisory committees on drugs, surgical instruments, and other types of medical equipment. These committees, composed of representatives of the industry, acted in an advisory capacity to the Surgeon General until early in September 1940, when the Army-Navy Munitions Board added these committees to its own advisory staff. At that time the committee on drugs met with the National Defense Advisory Commission and formulated plans for increasing the production of domestic drugs, the development of satisfactory substitutes for imported drugs, and the building of stock piles of those imported crude drugs for which no satisfactory substitutes were available.

As a result of these conferences, specifications for steel were changed to permit the use of commercial grade stainless steel instead of the special run previously required. The volume of items required by the Medical Department made it impossible to rely on ordinary commercial sources of supply as these had been keyed to the normal demand of the civil medical practice. As a result, it was necessary to

give assistance to new producers through grants for plant expansion and in designing tools and dies. Notable among the new producers entering the field are manufacturers of silverware, who have changed to the production of surgical instruments, and manufacturers of bicycles, who have produced litter carriers.

If the present rate of production is maintained and delivery schedules are met, medical supplies will be received in increasing volume, although the program will not be completed until 1942.

GEOGRAPHIC DISTRIBUTION OF WAR DEPARTMENT PRIME CONTRACTS

Mr. PATTERSON. One of the subjects which has interested this committee is the geographic distribution of War Department contracts. I have asked Mr. Stacy May, of the Bureau of Research and Statistics of the Office of Production Management, to prepare some data on this subject which I now present.

The distribution of prime contracts awarded by the War Department from June 1, 1940, through May 1941, is shown in table I below for the major geographic regions of the country.

In the same table the distribution of such awards is compared with the value of the total manufacturing output of the country as reported by the 1939 Census of Manufactures. The latter figures provide an over-all measure of the relative manufacturing importance of each region and represent an appropriate standard against which to evaluate the geographic distribution of Army contract awards. For the purposes of rendering the comparison more helpful, the data are shown with and without aircraft contracts, since these were necessarily awarded to existing plants which were heavily concentrated in a few States, notably on the west coast. It should be noted in this connection that several new aircraft facilities are being constructed with War Department funds at inland locations, including Oklahoma, Nebraska, Missouri, Kansas, Texas, and Ohio.

TABLE I.—Percent distribution of Army prime contract awards and total value of manufactured product by regions

Region	Total value of manufactured product ¹	Army prime contracts ²	
		Excluding aircraft	Including aircraft
New England.....	8.6	8.0	5.9
Middle Atlantic.....	28.2	22.6	23.9
East North Central.....	30.8	31.5	28.5
West North Central.....	6.8	9.3	8.4
South Atlantic.....	9.5	11.5	10.0
East South Central.....	3.5	6.5	4.4
West South Central.....	4.5	3.6	2.5
Mountain.....	1.5	3.7	2.7
Pacific.....	6.6	3.3	13.7
Total.....	100.0	100.0	100.0

¹ Census of Manufactures for 1939.

² Prime contracts of \$10,000 or more awarded from June 1, 1940, through May 31, 1941.

It is apparent from table I that there is close correspondence between the geographic distribution of manufacturing industry in the country and the prime contracts awarded by the War Department. In fact, there tends to be a somewhat greater concentration of Army contracts than total manufacturing activity in the less highly developed industrial areas of the West and South.

It is also significant to note that the new plants financed by the War Department funds likewise tend generally to be located in these same areas rather than in the already heavily industrial regions. The actual distribution of War Department financed plants, on the basis of their estimated cost, is shown in table II below:

TABLE II.—Percent distribution of the estimated cost of new industrial facilities financed by War Department funds and total value of manufactured product by regions

Region	Total value of manufactured product ¹	Estimated cost of War Department facilities ²	Region	Total value of manufactured product ¹	Estimated cost of War Department facilities ²
New England.....	8.6	2.5	West South Central.....	4.5	4.8
Middle Atlantic.....	28.2	7.3	Mountain.....	1.5	3.1
East North Central.....	30.8	40.5	Pacific.....	6.6	2.4
West North Central.....	6.8	15.3	Undistributed.....		.2
South Atlantic.....	9.5	12.9			
East South Central.....	3.5	11.0	Total.....	100.0	100.0

¹ Census of Manufactures for 1939.

² Commitments of War Department funds from June 1, 1940, through May 31, 1941. Includes War Department share of Defense Plant Corporation projects.

The relatively small proportion of the new War Department plants in the New England and the Middle Atlantic States is largely offset by the large volume of Navy shipbuilding facilities in these two regions which accounted for 11.3 and 39.5 percent, respectively, of the new shipbuilding facilities.

The volume of prime contracts is, at best, an imperfect measure of the impact of the defense program in a particular area. The process of production involves a flow of materials and services to the point of final fabrication or location of the prime contracts. Of course, many areas participate in this process without being revealed in the analysis of the location of prime contracts. Hence, a more comprehensive measure is required if the direct and indirect effects of the defense program are to be determined.

Since the great expansion in industrial activity which has taken place during the past year may be almost entirely attributed to the defense program, the increase in employment in each area may be taken as the most general measure of the direct and indirect effects of the program in that area.

Table III below shows the regional distribution of nonagricultural employment in April 1940, before the defense program was launched, and corresponding data for April 1941, the latest month available. It will be noted that while not all regions have experienced the same rate of increase in employment, there has been little change in the relative position of each region during the past year.

TABLE III.—Percent distribution of nonagricultural employment by regions, April 1940 and 1941

Region	April		Region	April	
	1940	1941		1940	1941
New England.....	8.5	9.0	West South Central.....	6.3	6.3
Middle Atlantic.....	26.4	25.7	Mountain.....	2.6	2.6
East North Central.....	23.2	23.7	Pacific.....	8.2	8.3
West North Central.....	8.2	7.8	Total.....	100.0	100.0
South Atlantic.....	12.1	12.2			
East South Central.....	4.5	4.4			

CONCLUSION

MR. PATTERSON. For 1942 the Congress has already approved \$10,-400,000,000 in cash appropriations or contract authorizations. Of this amount a little less than \$3,400,000,000 is for the liquidation of contract authorization in prior appropriation acts and about \$2,400,-000,000 for pay and maintenance of the existing military establishment. This leaves a balance of about \$4,600,000,000 for new procurement and construction activities. The bulk of that is for the Air Corps. In addition, there are pending supplemental estimates totaling \$4,750,000,000 for the procurement of the remaining munitions to complete the War Department's present program, and the greater item of that last figure is for the tanks, antitank weapons, and anti-aircraft weapons that we believe mechanization of warfare calls for in increased quantities.

This 1942 fiscal year appropriation, plus the pending supplemental estimate, will provide for the procurement of a balance of essential and critical items to complete the requirements for a troop basis of 1,725,000 men, the present size of the authorized Army, so as to provide initial allowance and normal peacetime maintenance for such contemplated forces.

In addition to the above, it is contemplated that the appropriations and authorizations granted and pending will provide for the initial equipment and combat maintenance requirements for critical items for a total force of 3,000,000 men, including the Air Corps' expansion from the first to the second aviation objective.

Besides essential and critical items for an existing force of 1,725,-000 men and critical items for a possible force of 3,000,000 men, the program calls for the procurement of certain quantities of ordnance and aircraft over and above the initial equipment for such force. This will constitute an additional reserve of vital importance which will certainly be required in the event of hostilities.

The completion of the 1941 fiscal-year program, plus the 1942 authorizations, will bring industrial America into production of defense articles at a much greater rate than up to the present time. I hope that the War Department, in executing this expanded program, will merit the approval of the Congress and of the American people.

The CHAIRMAN. Thank you very much, Mr. Secretary.

Tomorrow's witness at 10:30 will be Mr. A. B. Homer, vice president of the Bethlehem Steel Co., and he will talk to us about shipbuilding and the Bethlehem contracts.

(Whereupon, at 12:15 p. m., an adjournment was taken until 10:30 a. m. Wednesday, July 16, 1941.)

INVESTIGATION OF NATIONAL DEFENSE PROGRAM

WEDNESDAY, JULY 16, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Tuesday, July 15, 1941, in room 318, Senate Office Building, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman, chairman; James M. Mead, and Joseph H. Ball.

Present also: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order.

Mr. HOMER, you have been sworn before this committee, haven't you?

Mr. HOMER. The last time I was here I think I was sworn. That was on another subject, however.

The CHAIRMAN. Well, we will swear you again to be safe. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

TESTIMONY OF A. B. HOMER, VICE PRESIDENT, BETHLEHEM STEEL CO.

Mr. HOMER. I do.

The CHAIRMAN. We asked you to come here as a representative of the Bethlehem Steel Co. to give us certain information with regard to the contracts which you now hold as a shipbuilding corporation with the United States Government, and we would like very much for you to tell us just how many contracts and how much they will amount to that you now have with the Federal Government.

Mr. HOMER. I am very glad to come here today, Mr. Chairman, and to attempt to give you a picture of the part that Bethlehem Steel Co. is playing in this national-defense program, and I think it might be helpful for an understanding of that picture if I might give first a brief description of the plants and facilities and where located so that for the purposes of the record it may be clearly understood that we are not talking about any one particular plant. We don't operate one plant. We have many plants all over the country.

The CHAIRMAN. You may proceed.

DESCRIPTION OF BETHLEHEM STEEL CO.'S ACTIVITIES AND FACILITIES

Mr. HOMER. In surveying our whole program and the many ramifications of it, it would probably be of assistance to have a picture of the many activities and plants that the Bethlehem Steel Co. is operating.

The CHAIRMAN. You may proceed because we want not only information with regard to shipbuilding contracts, but also with regard to all the national-defense contracts in which Bethlehem is interested, So, you may proceed.

Mr. HOMER. The Bethlehem Steel Co. is engaged chiefly in the businesses of, first, the manufacturing and selling of iron, steel, and certain other products, including structural shapes, rails and rail accessories, plates, sheet piling, bars, rods, blooms, billets, slabs, sheet bars, tin plate bars, skelp, pipe, tubes, sheets, strip, black plate, tin plate, wire, wire rope and other wire products, bolts, nuts, rivets, and spikes, forged car wheels and axles, railroad frogs and switches, forged armor, gun forgings, air flask forgings, ship shafting, press, hammer, and drop forgings, shell forgings, steel, iron, and brass castings, pig iron, ferromanganese, ingot molds, coke and by-products produced in the manufacture of coke;

Second. The construction and selling of steel passenger train, freight train, and mine cars;

Third. The fabricating and/or selling and/or erecting of steel for buildings, bridges, tanks, and other miscellaneous structures;

Fourth. The contracting for and the building and repairing of naval and merchant vessels, tugs, car floats, barges, and certain other harbor craft; and

Fifth. The mining and quarrying of iron ore, coal, and limestone, chiefly for its own use.

The properties and nature of operation of the Bethlehem Steel Co., the iron and steel producing and manufacturing plants, as of December 31, 1940, are as follows:

At the iron and steel producing and manufacturing plants are located facilities with an estimated combined annual capacity of 7,090,000 net tons of coke, 7,620,000 net tons of pig iron, 180,000 net tons of ferromanganese, and 11,850,000 net tons of raw steel, together with rolling, forging, casting, and other finishing facilities capable of converting such steel into certain semifinished and finished products.

Such plants are more particularly described as follows:

Bethlehem plant, located at Bethlehem, Pa.: This plant comprises approximately 746 acres of land, on which are located facilities with an estimated annual capacity of 1,785,000 net tons of coke, 1,416,000 net tons of pig iron, and 2,227,000 net tons of open-hearth and electric raw steel, together with rolling, forging, casting, and other finishing facilities capable of converting such steel into certain semifinished and finished products, including blooms, billets, slabs, structural shapes, alloy and carbon bars, tool steel, press and hammer and drop forgings, including forged armor, gun, shell, and air-flask forgings, aircraft forgings, ship shafting, and other miscellaneous forgings and steel castings, other products manufactured at this plant are iron and brass castings, machinery, ingot molds, and so forth.

Cambria plant, located at Johnstown, Pa.: This plant comprises approximately 689 acres of land, on which are located facilities with

an estimated annual capacity of 1,890,000 net tons of coke, 1,440,000 net tons of pig iron, 180,000 net tons of ferromanganese, and 1,800,000 net tons of open-hearth and Bessemer raw steel, together with rolling, forging, and other finishing facilities capable of converting such steel into certain semifinished and finished products, including blooms, billets and slabs, plates, structural shapes, bars, wire rods, wire and wire products, forged wheels and axles, light rails and rail accessories, mine ties, rail anchors, steel freight-train and mine cars, and so forth.

Maryland plant, located at Sparrows Point, Md.: This plant consists of a steel division and a shipbuilding yard, the latter being known as the Sparrows Point yard of the Maryland plant, after June 2, 1941, however, being owned and operated by the Bethlehem-Sparrows Point Shipyard, Inc., and being described elsewhere in this description that I am giving. The steel division comprises approximately 1,981 acres of land, on which are located facilities with an estimated annual capacity of 1,780,000 net tons of coke, 2,280,000 net tons of pig iron, and 3,535,000 net tons of open hearth and Bessemer raw steel, together with rolling and other finishing facilities capable of converting such steel into certain semifinished and finished products, including blooms, billets, slabs, skelp, sheet bars, plates, rails, reinforcing bars, hot rolled and galvanized sheets, tin terne and black plate, wire rods, wire and wire products, wire strand, black and galvanized pipe, flanged and dished plate work, and so forth.

Lackawanna plant, located at Lackawanna and Blasdell, N. Y.: This plant comprises approximately 1,131 acres of land, on which are located facilities with an estimated annual capacity of 1,345,000 net tons of coke, 1,692,000 net tons of pig iron, and 3,120,000 net tons of open hearth raw steel, together with rolling and other finishing facilities capable of converting such steel into certain semifinished and finished products including blooms, billets, slabs, sheet bars, structural shapes, steel piling, plates, alloy and carbon bars, rails and rail accessories, hot rolled, cold-reduced and galvanized sheets and strip, rolled joists, and so forth.

Steelton plant, located at Steelton, Danville, and Williamsport, Pa.: This plant consists of the Steelton division, located at Steelton, Pa.; the Danville division, located at Danville, Pa.; and the Williamsport division, located at Williamsport, Pa. The Steelton division comprises approximately 379 acres of land, on which are located facilities with an estimated annual capacity of 290,000 net tons of coke, 792,000 net tons of pig iron, and 740,000 net tons of open-hearth and electric raw steel, together with rolling, forging, casting, and other finishing facilities, capable of converting such steel into certain semifinished and finished products, including blooms, billets, and slabs, carbon bars, rails and rail accessories, frogs, switches, and special track work, press and hammer forgings, including ship shafting, steel castings, and so forth. The Danville division comprises approximately 7 acres of land, on which are located rolling mills and other facilities with an estimated annual capacity of 28,000 net tons of bars and tubular products rolled from old rails when available. The Williamsport division comprises approximately 41 acres of land, on which are located facilities for drawing wire and for the manufacture of wire rope and wire strand with an estimated annual capacity of 14,000 net tons.

Seattle plant, located at Seattle, Wash.: This plant comprises approximately 82 acres of land, on which are located facilities with an

estimated annual capacity of 156,000 net tons of open-hearth raw steel, together with rolling and other finishing facilities capable of converting such steel into certain semifinished and finished products, including blooms, billets, slabs, structural shapes, plates, tie plates, and bars.

South San Francisco plant, located at South San Francisco, Calif.: This plant comprises approximately 99 acres of land on which are located facilities with an estimated annual capacity of 160,000 net tons of open-hearth raw steel, together with rolling and other finishing facilities capable of converting such steel into certain semifinished and finished products, including blooms, billets, slabs, structural shapes, bars, bolts, nuts, rivets, and spikes.

Los Angeles plant, located at Vernon, Los Angeles, Calif.: This plant comprises approximately 58 acres of land, on which are located facilities with an estimated annual capacity of 112,000 net tons of open-hearth raw steel, together with rolling, forging, and other finishing facilities capable of converting such steel into certain semifinished and finished products, including blooms, billets, slabs, structural shapes, bars, bolts, nuts, rivets, spikes, and forgings.

Lebanon plant, located at Lebanon, Pa.: This plant comprises approximately 88 acres of land, on which are located heating furnaces, rolling and other facilities with an estimated annual capacity of 162,000 net tons of steel bars and other finishing facilities capable of converting such bars into bolts, nuts, rivets, spikes, sucker rods, and forgings.

Coatesville plant, located at Coatesville, Pa.: This plant comprises approximately 38 acres of land, on which are located rolling and other facilities with an estimated annual capacity of 26,000 net tons of boiler tubes.

Wilmington plant, located at Wilmington, Del.: This plant comprises approximately 42 acres of land, on which are located shops and other facilities for the manufacture of passenger-train cars.

Tulsa plant, located at Tulsa, Okla.: This plant comprises approximately 18 acres of land on which are located an iron foundry, a forge shop, machine shop, and other facilities for the manufacture of iron castings, forgings, and miscellaneous oil-field equipment.

Structural fabricating works as of December 31, 1940: Structural fabricating works located at the Bethlehem and Steelton plants, at the Alameda yard of the west-coast yards, and at Pottstown, Rankin, and Leetsdale, Pa.; at Buffalo, N. Y.; at Chicago, Ill.; and at Los Angeles, Calif. Such works in the aggregate have an estimated annual capacity for fabricating approximately 940,000 net tons of steel for bridges, buildings, tanks, and other structures. The acreages of the land occupied by such works located at the Bethlehem and Steelton plants and at the Alameda yard are included in the respective acreages of such plants and yard as stated elsewhere in this description. The other structural fabricating works comprise in the aggregate approximately 288 acres of land.

BETHLEHEM'S SHIPBUILDING AND SHIP-REPAIR YARDS AS OF DECEMBER 31, 1940

Mr. HOMER. Baltimore yards, located at Baltimore, Md.: These yards comprise the lower yard, having an area of approximately 14 acres, and the upper yard, having an area of approximately 27 acres.

They are equipped with floating docks, graving docks, wharves, shops, and other facilities for the repairing of vessels.

Sparrows Point yard of Maryland plant, located at Sparrows Point, Md. (now the Bethlehem-Sparrows Point Shipyard, Inc.): This yard comprises approximately 102 acres of land. It is equipped with nine building ways, wharves, shops, and other facilities for the construction of commercial vessels.

Boston yards, located at East Boston, Mass.: These yards consist of the Simpson yard and the Atlantic yard. The Simpson yard comprises approximately 8.5 acres of land and is equipped with a floating dock, graving docks, wharves, shops, and other facilities for the repairing of vessels. The Atlantic yard comprises approximately 13.5 acres of land and is equipped with a floating dock, marine railways, wharves, shops, and other facilities for the repairing of vessels.

Fore River yard, located at Quincy and Braintree, Mass.: This yard comprises approximately 97 acres of land. It is equipped with seven building ways, wharves, shops, foundries, and other facilities for the construction of all types of naval and merchant vessels.

West coast yards, located at San Francisco, Alameda, and San Pedro, Calif.: These yards consist of the San Francisco yard, located at San Francisco, Calif.; the Alameda yard, located at Alameda, Calif.; the Hunter's Point yard, located at San Francisco, Calif. (operated under lease from the Government); and the San Pedro yard, located at San Pedro, Calif. The San Francisco yard comprises approximately 65 acres of land and is equipped with three building ways, floating docks, wharves, shops, and other facilities for the construction and repairing of vessels. The Alameda yard comprises approximately 66 acres of land and is equipped with floating dock, wharves, shops, and other facilities for the repairing of vessels. The Hunter's Point yard comprises approximately 53 acres of land and is equipped with two large graving docks. The San Pedro yard comprises approximately 51 acres of land and is equipped with a floating dock, wharves, shops, and other facilities for the repairing of vessels.

New York yards, located in the Borough of Brooklyn, New York City, at Mariners Harbor, Staten Island, New York City, and at Hoboken, N. J.: These yards consist of the Brooklyn Fifty-sixth Street yard, and the Brooklyn Twenty-seventh Street yard, located in the Borough of Brooklyn, New York City; the Staten Island yard located at Mariners Harbor, Staten Island, New York City; and the Hoboken yard located at Hoboken, N. J. The Brooklyn Fifty-sixth Street yard comprises approximately 19 acres of land and is equipped with floating docks, wharves, shops, and other facilities for the repairing of vessels. The Brooklyn Twenty-seventh Street yard comprises approximately 32 acres of land and is equipped with floating docks, wharves, shops, and other facilities for the repairing of vessels. The Staten Island Yard comprises approximately 37 acres of land and is equipped with four building ways, floating docks, wharves, shops, and other facilities for the construction and repairing of vessels. The Hoboken yard comprises approximately 14 acres of land and is equipped with floating docks, wharves, shops, and other facilities for the repairing of vessels.

In addition to these shipbuilding facilities that have just been mentioned that are owned by Bethlehem Steel Co., we are operating a

yard at Fairfield, Md., which is just outside of Baltimore, where we have 16 ways which are practically completed. They are being built for the Maritime Commission, and the whole yard is for the purpose of constructing 62 of the emergency-type cargo vessels for the Maritime Commission.

OUTLINE OF BETHLEHEM'S SHIPBUILDING AND SHIP REPAIR ACTIVITIES
UNDER NATIONAL DEFENSE PROGRAM

Mr. HOMER. Having given you a brief description of the facilities of the Bethlehem Steel Co., I would like to give a brief outline of Bethlehem's present work under contract for the national-defense program. I think that is in response to your questioning.

The CHAIRMAN. We made that request.

Mr. HOMER (continuing):

Total value of uncompleted work on all contracts (other than that for new plant facilities), including contracts for ships, steel, ordnance, and other materials, a great part of which is, directly or indirectly, for national defense-----	\$1, 368, 000, 000
Of this, the amount representing contracts held by the Shipbuilding Division is as follows:	
For ships to be constructed within a period of 5 years-----	1, 033, 000, 000
For ship repairs and miscellaneous products-----	27, 000, 000
The balance covers contracts held by the Steel Division for all classes of steel products, the major part of which is, directly or indirectly, for national defense, and which represent about 6 months' production at full-capacity operations--	308, 000, 000

CONTRACT VALUE OF DIRECT NATIONAL DEFENSE WORK, EXCLUDING NEW
PLANT FACILITIES, NOW IN PROGRESS

Mr. HOMER. I might explain there that there is a difference between the figure that I have previously given in that the first figures are uncompleted work yet to be done to complete the contracts, but it was thought that you might like to have some idea of what the contract value is of this work.

The CHAIRMAN. That is right. I was going to ask you that.

Mr. HOMER (continuing):

Contract value of direct national defense work, excluding new plant facilities, now in progress

(a) Naval vessels under 11 percent, 70 percent programs, and prior contracts not completed-----	\$971, 774, 000
(b) Commercial vessels for Maritime Commission and private owners suitable for defense service-----	182, 168, 000
(c) Forged armor, gun forgings, shells, bombs, air-flask forgings, shafting, and other products-----	75, 000, 000
Total -----	1, 228, 942, 000

ESTIMATED COST OF NEW PLANT FACILITIES FOR DEFENSE PURPOSES

Mr. HOMER. We consider that this is just as much part of the national-defense program as the actual construction of the various products, because we are unable to produce some of them unless we have these additional facilities.

Estimated cost of new plant facilities for defense purposes

(a) New plant facilities which are Government-financed :	
Steel Division-----	\$23, 607, 000
Shipbuilding Division-----	49, 958, 000
(b) New plant facilities which are financed by Bethlehem :	
Steel Division-----	52, 000, 000
Shipbuilding Division-----	4, 000, 000
Total estimated cost of new plant facilities for defense purposes-----	
	129, 555, 000

Mr. FULTON. Those financed by Bethlehem, I assume, are financed by the company which is taking the amortization over a 5-year period?

Mr. HOMER. Yes.

I would like to continue now to give you a description of the ship-building part of the program.

During 1940 three new shipways were completed with our own funds, which, with existing shipways, permitted the laying down of 28 new ships in that year.

Twenty-six new ways and two reconditioned ways have been or are now being added, to be paid for by the Government for national-defense use, and will, with existing ways, increase the number of ships laid down during 1941 to 77.

Including the new yard for the construction of 62 vessels of the emergency cargo type for the Maritime Commission, Bethlehem will have in operation 56 ways, from which are scheduled to be delivered 20 vessels in the remainder of 1941, 86 vessels in 1942, and 75 vessels in the following 3 years, all of these vessels, totaling 181, now being either under construction or contracted for. Twenty-two vessels were delivered in 1940, and 14 have been delivered to date in 1941.

Out of a total of 181 ships that are now under contract or not completed, 76 of those vessels are naval vessels, and 105 are merchant type vessels. The 76 naval vessels consist of 1 battleship, 4 aircraft carriers, 20 cruisers, and 51 destroyers. The 105 merchant type vessels consist of 3 passenger and cargo ships, 9 cargo ships, 62 emergency type cargo ships, and 27 tankers, and 4 trawlers.

Toward the end of May 1940 the Navy Department requested Bethlehem to give immediate consideration to the construction of naval vessels under the 11 percent naval-expansion program. Vessels were to be constructed in the shortest possible time, utilizing a longer work week, shifts, and additional facilities. The various types of vessels, some of entirely new design, and others duplicating existing designs, were to be built by yards best prepared by experience and with suitable facilities to complete the vessels in the shortest possible time.

The Navy, to that end, had predetermined the distribution of this construction and desired Bethlehem to undertake the building of six cruisers and one aircraft carrier at the Fore River yard, three destroyers at the Staten Island yard, and five destroyers at the San Francisco yard.

Studies were made of the additional facilities required, and during June 1940 the details of the requirements were satisfactorily worked out with the Navy Department during many conferences in Washington. It was recognized that the proposed expansion was due solely to the emergency requirements of the extraordinary Navy program. It

would not in any sense be warranted on a commercial basis either in the light of normal business prospects or experience of the shipbuilding industry. In view of the status of the tax laws and the doubt whether expenditures, although made solely for the carrying out of the program, could be deemed a part of the cost of performing the contracts for the vessels to be constructed, and as the Department did not wish to inflate the cost of such vessels by the cost of the facilities it was finally agreed that, insofar as possible, the facilities should be paid for and owned by the Government. However, some of the facilities required were necessarily so interwoven with the company-owned facilities that title could not be vested in the Government, and the company, therefore, undertook at its own cost the expansion of existing facilities and the provision of new facilities at an estimated cost of approximately \$2,369,000. This figure is approximately 40 percent of the total required to be expended by the company in normal course for such purposes in the last 7 years. In the case of the Fore River yard and the San Francisco yard practically all the available land was already in use, and the program involved the leasing to Bethlehem of additional land by the Government for the expansion required by its needs. The design and installation were to be undertaken and furnished by the shipbuilder subject to approval and inspection of the Navy.

Prices for the naval vessels were negotiated with the shipbuilder by the Navy Department, based upon costs under existing conditions, with proper allowances for adjustments for future changes in material and labor costs and for overtime and shift work costs. All contracts awarded Bethlehem for naval vessels were at a fixed price, and not on a cost-plus basis.

The CHAIRMAN. They were lump-sum bids, in other words.

Mr. HOMER. They were what was called a fixed-price contract. The price in the contract is the amount which cannot be exceeded—that is all that the Navy—the Government pays—except for the adjustments for labor and material changes that may occur during the period of construction.

The CHAIRMAN. How do you figure the profit on that?

Mr. HOMER. If I may continue, I think I will cover that point.

The CHAIRMAN. All right; proceed.

Mr. HOMER. With negotiations completed by June 25, 1940, contracts were executed under date of July 1, 1940, for the 11 percent program. Immediately thereafter negotiations were commenced on the 70-percent naval expansion program. The 11-percent program became small in comparison, and the two programs were in effect merged into one so far as Bethlehem was concerned. Such a program which Bethlehem elected to assume far exceeded anything ever done before in this country, and made possible the carrying out of the Navy's schedule of ships in the time desired.

The negotiations for the 70-percent program were in effect an extension of those for the 11 percent program and the same general conditions applied as to form of contracts, prices, additional facilities, and allocation of vessels.

To obtain the utmost capacity of production and expedite construction as well, some modifications were made by the Navy in the 70 percent awards which expedited the overall program in Bethlehem's shipyards. No delay in the start of the program was caused by these

modifications as work was proceeding currently. Finally, in the first week in September 1940, all negotiations were concluded, and contracts were signed on September 9, 1940, for the 70 percent program, resulting in the following naval vessels being awarded to Bethlehem under the 11 percent and 70 percent naval expansion programs:

For building at Fore River yard: Four 1620-ton destroyers, six 10,000-ton light cruisers, eight 13,000-ton heavy cruisers, and four aircraft carriers; total, 22 ships.

At the Staten Island yard; five 1,620-ton destroyers; seven 2,100-ton destroyers; total, 12.

At the San Francisco yard, nine 1,620-ton destroyers; sixteen 2,100-ton destroyers; four 6,000-ton light cruisers; total, 29.

At the San Pedro yard, six 1,620-ton destroyers; four 2,100-ton destroyers; total, 10.

Total destroyers, 1,620-ton type, 24; total destroyers, 2,100-ton type, 27; total 6,000-ton light cruisers, 4; total 10,000-ton light cruisers, 6; total 13,000-ton heavy cruisers, 8; total aircraft carriers, 4; total of all ships, 73.

Total contract value of the vessels just listed, \$897,507,000.

The total estimated cost (including depreciation and general overhead), in which cost there is included approximately \$14,131,800, representing market prices of certain materials such as plates shapes, bars, forgings, castings, and so forth, all or part of which may be furnished by the steel division—total estimated cost, \$831,974,000, which gives a total estimated profit, before interest and income taxes, of \$65,533,000, from which, if you deduct the interest charges, which are estimated by us at the rate of \$0.007 per dollar of sales value, would be \$6,300,000, giving an estimated profit, less interest charges, of \$59,233,000; from which, if you deduct income taxes, which are estimated at a rate of 54 percent of the taxable income, would amount to \$32,000,000, leaving an estimated net income for the 5-year period during which these ships are under construction of \$27,233,000, which represents 3 percent of the contract value.

This \$27,233,000, being for a 5-year period, would result in an estimated average net income per year of \$5,446,000.

In addition to the above, there are in the course of construction at the Fore River yard, one battleship—35,000 tons—and two light cruisers of 6,000 tons, with a contract value of \$74,267,000. Those ships were contracted for prior to the 11 and 70-percent programs, but are all considered as part of the national naval defense program.

The scheduled delivery dates for the above-mentioned naval vessels are approximately as follows:

In 1942 deliver 1 battleship, eighteen 1,620-ton destroyers, and 2 light cruisers, a total of 21 ships.

In 1943 our schedule calls for delivery of six 1,620-ton destroyers, thirteen 2,100-ton destroyers, two 6,000-ton cruisers, one 10,000-ton cruiser, and three 13,000-ton heavy cruisers, a total of 25 ships.

In 1944 our schedule calls for the delivery of fourteen 2,100-ton destroyers, two 6,000-ton light cruisers, three 10,000-ton light cruisers, one 13,000-ton heavy cruiser, and two aircraft carriers, a total of 22 ships.

In 1945 our schedule calls for the delivery of two 10,000-ton light cruisers, four 13,000-ton heavy cruisers, and two aircraft carriers, a total of eight.

Grand total, 76 ships.

The estimated cost of Government-owned facilities, with expenditures to May 31, 1941, and the costs and approximate present-day value of Bethlehem-owned facilities are as follows—and instead of reading this—it is rather lengthy—I would like to submit for the record a copy of this exhibit, entitled “Shipbuilding and Ship Repair Facilities.”

The CHAIRMAN. It may be placed in the record.

(The chart referred to was marked “Exhibit No. 86” and is included in the appendix on p. 1877.)

Mr. HOMER. These expenditures will provide, in general, the following necessary facilities for our yards constructing naval vessels:

Fore River yard: two additional shipways to accommodate vessels of 1,000 feet by 150 feet, with overhead crane runways and cranes; additional wet basins and necessary assembly areas; two additional shipways for destroyer construction; facilities for assembly of turrets; extension to fabricating, machine, pipe, and sheet metal shops; additional warehouse and plate storage; machine tools, welding equipment and other general auxiliary facilities.

Staten Island yard: one additional shipway; three additional outfitting piers; extension to machine shop; warehouse and shop equipment; and facilities for manufacturing propellers.

San Francisco yard: three additional shipways, including cranes, for the construction of six destroyers at the same time and two additional shipways, with cranes, for the construction of cruisers; wet basin, including cranes; machine, plate, pipe, and sheet-metal shops; warehouse and other general auxiliary facilities.

San Pedro yard: two additional shipways, including cranes, for the construction of four destroyers at the same time; two outfitting piers: six service shops, including machine tools; mold loft; transportation equipment and other general auxiliary facilities.

The installation of these additional yard facilities for naval construction is being carried out under the supervision of the Navy Department. Orders have been placed or contracts have been let for practically the entire program.

On completion of the vessels now under contract for the Maritime Commission and others at these four yards, all the facilities will be required for the construction of naval vessels. Furthermore, it is our opinion that the area now occupied by these yards, together with the additional property adjacent thereto leased to Bethlehem by the Navy, and on which leased property part of the above expenditures for yard facilities are being made, constitutes the maximum capacity of such locations, and that it will not be possible to further increase the capacity of such yards by additional capital expenditures. At the time of the award of the above-mentioned naval vessels, our delivery program contemplated the increase in the capacity of the above-mentioned yards to the maximum limit of production.

The average number of production employees at the above-mentioned yards for the month of June for each of the years 1934 to 1941, inclusive, together with the maximum number of production employees that will be required at the respective yards at the peak-time employment in 1942 are set forth as follows:

Fore River yard, June 1934, 2,650 men; June 1935, 4,596 men; June 1936—these will all be June figures—4,315; 1937, 3,472; 1938, 3,970; 1939, 5,938; 1940, 6,525; 1941, 14,635. Maximum number of employees that will be required in 1942, 23,000.

Staten Island yard—we will start with the year 1938, which was the year in which Bethlehem acquired it—1938, 691; 1939, 836; 1940, 1,758; 1941, 3,585; and the maximum number in 1942 will be approximately 4,000.

At the San Francisco yard, 1934, 671 men; 1935, 642 men; 1936, 786; 1937, 2,120; 1938, 1,386; 1939, 886; 1940, 1,734; 1941, 4,655; and the maximum number of employees that will be required in 1942, 12,000.

San Pedro yard, 1934, 107; 1935, 241; 1936, 365; 1937, 358; 1938, 302; 1939, 402; 1940, 500; 1941, 1,739; and the maximum number of employees that will be required in 1942 will be 3,000.

The total for all of these 4 yards: 1934, 3,428; 1935, 5,479; 1936, 5,466; 1937, 5,950; 1938, 6,349; 1939, 8,062; 1940, 10,517; 1941, 24,614; and the maximum number of employees that will be required in 1942—production employees—will be 42,000.

Mr. Chairman, I think that that completes my brief statement as to the part that Bethlehem is playing in this national-defense program, and particularly with reference to the shipbuilding division.

The CHAIRMAN. We want to ask you a question or two. I want to get back to that contract situation. You say that those contracts were let on the basis of a certain fixed sum beyond which you could not go in cost.

Mr. HOMER. Yes; they are what we call, Mr. Chairman, a fixed-price contract.

The CHAIRMAN. A fixed-price contract. And you were protected in that fixed-price contract on the cost of the materials and the cost of labor, were you not?

Mr. HOMER. We are protected against any increases in material costs and labor rates beyond those that existed in May 1940, which was the time at which our estimates were made and on which our costs were based. We are compensated for any increases in material and labor which occur as a result of a method which has been in use by the Navy Department since 1933, which is based on a change in an index determined by the Department of Labor, Bureau of Labor Statistics, for material and for labor. If, for instance, the material index shows an increase, then there is an adjustment made in the amount of money that is to be expended for material under the contract from that time on; but all of these methods are predetermined—they are not left to the judgment of anyone afterward. They are all predetermined and written into the contract, so that there is no question as to how the thing is going to work or operate through the life of the contract.

The CHAIRMAN. I understand that, but what it really amounts to is that you are protected against the fluctuation in prices of labor and material during the life of the contract.

Mr. HOMER. We are protected insofar as the index may reflect actual changes. The index prices, for instance, of material is based on the prices of a great many commodities throughout the country. It is called the index for group VI, Metals and Metal Products, issued by

the Department of Labor, which covers prices of the automobile industry, the steel industry and all the people that manufacture iron and steel accessories and electrical equipment, and so forth. There is a whole list given of what they are. We would be protected if the change in the index covers the actual change in the prices that we have to pay, but you can see that where, over the whole country, prices are taken covering a certain group, it might be that the weight of a certain number of prices throughout the whole country would be so heavy on the total that we might in the shipbuilding industry have certain increases, but at the same time the index wouldn't reflect it in the exact amount that it occurs. So, to that extent we are not protected. We take a certain risk on that, but, generally speaking, the material and labor adjustments protect us against a wide fluctuation in the cost of materials or labor. It is not intended to cover these small fluctuations. And if we get into inflation or if we get into a large increase in labor costs, then we would probably be protected from a major change in the cost.

The CHAIRMAN. You furnish most of the steel plates and the steel castings and all that material to the shipbuilding company, do you not—that is, the Bethlehem Steel Co. furnishes almost all the material that they use?

Mr. HOMER. If you don't mind, I will put it the other way. I am in charge of the shipbuilding division of the Bethlehem Steel Co.

The CHAIRMAN. I see. Then you receive it from the Bethlehem Steel Co.

Mr. HOMER. I would like to answer that this way—that we make our estimates for all steel products, including plates and shapes and castings and forgings, on the basis of the market price and that we don't know, when we make that estimate, whether all or some or what proportion of that total of steel products is going to be furnished to us by the Bethlehem Steel division. We might have to buy, as we are doing now, steel products from other steel companies, but we base our estimates on the market price for steel.

The CHAIRMAN. The reason you are buying from others is that you have so much shipbuilding business that the possibility is that you will have to run into the market because your own factory can't make it.

Mr. HOMER. That might be the reason. There are other products—

The CHAIRMAN (interposing). The profits on those steel castings and steel plates and the material that you have to buy from the Bethlehem Steel Co. are figured to the Bethlehem Steel Co. in addition to the shipbuilding profits that you have given us here?

Mr. HOMER. Yes; they are considered by us to be just the same as any other outside subcontractor that furnishes material. For instance, if General Electric or Westinghouse furnishes us with generators or motors, we buy them at the market price, and those people make whatever profit they make. We don't know what it is.

The CHAIRMAN. I see.

Mr. HOMER. We buy steel from Bethlehem Steel division or from Carnegie or from Midvale or from any of the others at the market price. Incidentally, out of the total program of practically \$900,000,000, the market value of the materials that the Bethlehem Steel Co.,

steel division, could furnish to us is only \$14,000,000, which is, well, 1½ percent of the total contract price, so that it isn't a large amount. It is a very small amount of the total contract price.

Senator MEAD. Might I ask, Mr. Chairman, if you are experiencing any difficulty in getting adequate power or materials or supplies?

Mr. HOMER. In electric power?

Senator MEAD. Yes.

Mr. HOMER. Not to my knowledge.

Senator MEAD. And the same is true of material and supplies of all kinds?

Mr. HOMER. Well, I can't say that we are having no trouble in getting materials. I believe that in this whole national-defense program, as far as the shipbuilding operations are concerned, our ability to produce ships is going to depend primarily on our ability to get materials when we need them. The bottleneck is not in the shipyards; the bottleneck is not with labor, as we see it today. The bottleneck is going to be in being able to get materials when we need them to put into the ships.

Senator MEAD. But you are not experiencing any difficulty at present?

Mr. HOMER. At the present time we are ahead of our schedule, but we are alert to the situation. We have built up an organization to cover what we call the procurement and the expedition of material. We have an organization all over this country which is doing nothing but trying to get the materials into our shipyards when we need them so that we are not delayed due to the inability of obtaining materials. Our biggest job, as I see it now, is to get the materials in the yards when we need them. Of course, that involves priorities, and all that goes with it.

Senator MEAD. For the present the situation looks satisfactory, and you said a minute ago you were ahead of schedule. About how far ahead of schedule, on the average, are you in delivering these ships?

Mr. HOMER. Well, I can give you a concrete example. Take the battleship at Fore River, which is the battleship *Massachusetts*; we intend to launch her in September this year. We intend to deliver her in December the following year. We will have reduced the time approximately 7 or 8 months from the contract time.

On our cruisers that are being constructed, the light cruisers at Fore River, I will say that we are from 3 to 4 months ahead of our schedule; and all the way down in our destroyer program, I would say that we are on or ahead of schedule. Those ships are not far enough along so that we can tell what the ultimate result is going to be, but we feel we will be on or ahead of schedule unless we get into some serious difficulty beyond our control in connection with the obtaining of materials.

Senator MEAD. Speaking about the destroyers, are they of standardized design so that we can get into mass production of ships of that type?

Mr. HOMER. Yes; the destroyers are of two types. The 1,620-ton destroyers were a duplicate of the 1,620's that were being built prior to this national-defense program, and in order to be able to go into production immediately, those 1,620-ton destroyers were selected and awarded so that we who had built some, and the other yards who had

built or were building some, could immediately start production. Those were to be followed by a new design of 2,100-ton destroyers all of which will be of the same design. All of the yards will build the same 2,100-ton destroyer from the same plans, and that will be a duplication proposition.

Senator MEAD. Getting back to supplies of material, how about the supply of tools, dies, and machines?

Mr. HOMER. Machine tools are one of our problems. We would like to have machine tools now that we are unable to get. However, at the present time we in general don't foresee that that delay in machine-tool delivery is going to delay the program. If it continues for any length of time, there may be some delay.

Senator MEAD. What about bringing up adequate labor forces to meet the increased demand?

Mr. HOMER. We started over a year ago to anticipate this situation. When in May 1940 we had a conception of what this tremendous program was going to mean as far as labor force is concerned, but to the fact that the naval construction and merchant construction for a long time had not been of any great volume and the labor force had gradually worked into other industries and away from the shipyards, we felt that a survey should be made of the labor situation in all the areas where we had plants, and that we should start at once to develop a training course for employees that could be brought back into the industry, whether they were partially experienced or whether they were inexperienced, because we felt that we would have to do something in that respect in order to obtain the force and build it up when we wanted it.

We had to establish certain conditions as to the type of training. We could not put these men in a 4-year apprentice training course, because the emergency might be over, and we wouldn't have them when we wanted them. We had to devise a training method which would make specialists for certain jobs and trades, which would permit these men to be trained in 3 or 4 months to do the job. You can do that when you have a large amount of work and a certain amount of repetitive work. As the result of that study, we laid out a program in all of our yards as to how many men we would need in the different trades, and when we would need them, and how that would have to be built up over the months as it went along, and we would anticipate those needs and start to train the men so that they would be ready for employment, and so they would be able to produce when we needed them.

I think I have some figures here that might interest you. At the present time, we are ahead or on schedule as far as training men goes. We have been very much pleased with the results. It has amazed us to find that there has been an adequate supply of labor in practically every port in which we have a yard, and that these new men have taken hold with enthusiasm and have learned their job well and are now forming a large part of our producing force. At the Fore River yard, for instance, in Quincy, Mass., to date we have trained 4,000 men. We have about 625 in training at the present time, and we will have to train a total of between four and five thousand. There does not seem to be any bottleneck in that particular case, and we are actually well ahead of schedule. As a matter of fact, we have employed

at that yard probably 2,000 men more than we thought we would be able to get up to that time.

The CHAIRMAN. Do you draw any color line in these yards?

Mr. HOMER. No; but up north they don't have very many of them. When the winter comes round they like to go south with the birds. But whenever we have a certain number of them there in the summer-time, we can use them. We have, of course, in Baltimore many more than we have up north. We have no yards on the Gulf or farther south than Baltimore.

As for our total figures on training, we have to train, I would say, for our total program outlined to you, about 14,000 men. It looks like a tremendous undertaking to do it in a short time, but we are on schedule and we have already trained, or have in training, over 7,000 men.

Senator MEAD. The training is done right in the yards?

Mr. HOMER. Yes; it is done right in the yards.

Senator MEAD. Under the supervision of the skilled workmen?

Mr. HOMER. It is done partially by classroom work and partially, I would say mostly, on the job. If you are interested in the method, I would be glad to go further if you have the time, but briefly it is this, that these trainees have 1 hour of classroom work every morning, the first hour in the day. The rest of the time is spent out on the job working under the direction of an instructor. We have on the average one instructor to every 10 men, so that he is able to give them the personal supervision. That has worked out very satisfactorily and these men are being trained that way for the various trades under the instruction of an experienced man in that trade who works with them right on the job, and also attends the classroom work with them, so that he is in that training picture all the time.

Senator BALL. Do you pay them while you are training them?

Mr. HOMER. Oh, yes.

Senator BALL. Have the unions cooperated in that program?

Mr. HOMER. We have had no difficulty to date.

Senator MEAD. What progress has the Bethlehem Shipbuilding Corporation attained in the repair of ships above the water line and on the decks and in the interior of the ships without the use of the docks or the ways that might be used for more important work?

Mr. HOMER. Well, a large proportion of repair work today, particularly ships that have been damaged due to being in the combat zone, is above-water damage, and, of course, the repairs to those ships are undertaken alongside of a pier in the repair yard, or, if we do not have a sufficient number of piers, we endeavor to get additional space to do the work either adjacent to or as near as possible to the yard. We are doing that in all of our ports. We are leasing piers and expanding where necessary so we can take care of the additional work. Of course, that doesn't increase your drydocking capacity at all, but it does ease the situation as far as above-water work is concerned.

Senator MEAD. A great deal of it is being done now without the use of the regular docks and piers?

Mr. HOMER. Well, the docks are being operated as much as they can be operated.

Senator MEAD. For new work?

Mr. HOMER. For repair work. We drydock the ship in a graving or a floating dock for under-water repairs which necessitate her being dry so that you can work on her. Any work that doesn't require the drydock is done alongside of the pier in the yard or adjacent to the yard.

Senator BALL. I was interested in this statement on your ship-building and ship-repair facilities. I noticed you figure that the cost to the company as of December 31, 1939, was about 48½ million. You have built almost 5 million since then, or will build, and you figure the present-day value at 105 million. Have those facilities increased 100 percent, approximately, in value?

Mr. HOMER. That approximate present-day value is the estimate of our engineers in our office in Bethlehem, who are continually making a study of replacement values; an estimate of what they consider to be the replacement value of the facilities today. In other words, if they disappeared and we had to put them back again to equal the facilities that we have today, it would cost us, we estimate, about \$105,000,000 to produce them.

Senator BALL. Do you figure your depreciation, then, and overhead on that \$105,000,000 basis or on the actual cost?

Mr. HOMER. That is the actual present-day value of the facilities if we had to replace them; that is today. That would be the cost of replacing those facilities today.

The CHAIRMAN. That is not actually what they cost, is it? That is the estimated cost?

Mr. HOMER. That is what we estimate. I wouldn't be surprised if it would cost more, the way things are going up.

Senator BALL. I was wondering which figure you used, though, in figuring your depreciation and overhead on facilities.

Mr. HOMER. Well, 105 million is our cost of replacing today and has no depreciation figure in it.

Senator BALL. But in your cost figures which you gave us previously, you must have an item in there for wear and tear on your facilities—depreciation—and I was wondering which figure you used there, 105 million?

Mr. HOMER. Well, I am not quite clear just what you mean. One hundred five million is what it would cost us to replace those facilities today. It has nothing to do with depreciation.

Senator BALL. Yes, but you gave us that \$813,000,000 for your cost figures on the naval ships, including depreciation and overhead. The contract price was 887. In that figure you said there was an overhead. The only way you could figure overhead in cost charge to facilities is in charging depreciation and wear and tear to them. I wondered which figure you used as a basis, 53 million or 105 million.

Mr. HOMER. It would probably be the figure 53 million on which the depreciation would be based.

Senator BALL. In other words, your cost figures on these ships you are building would be based on the actual cost to you of your plant facilities and not what you consider their present-day value.

Mr. HOMER. That is right.

Senator BALL. As a matter of fact, then, taking your \$105,000,000 figure plus the 50 million that the Government is building, you will be using about \$155,000,000 worth of facilities in this program.

Mr. HOMER. That is right.

The CHAIRMAN. Mr. Homer, I wonder how many admirals, retired or otherwise, you have on your pay roll.

Mr. HOMER. Well, I think I can answer that without much second thought. We don't have any admirals, retired or otherwise, on our pay roll.

The CHAIRMAN. Have you any captains?

Mr. HOMER. We have one. I have investigated that, and I find in 1936 a captain who was retired and living in Quincy, sometime after he had been retired by the Navy was very anxious to be kept busy. He had been very active all his life and thought he had considerable activity left in him, and he wanted to come down and just take any sort of job that we were able to give him, and where he could contribute something. We took him on in 1936 at Fore River. He was a retired captain in the Navy. He has no position of responsibility. As a matter of fact, he is in charge of our general Navy correspondence at that plant, that is the handling of it and the distribution to the proper people.

The CHAIRMAN. Does he do any lobbying with the Navy in your behalf?

Mr. HOMER. No, sir; we specifically exclude him from any such work.

The CHAIRMAN. Do you have an employed lobbyist here in Washington to help you get contracts with the Navy?

Mr. HOMER. No, sir.

The CHAIRMAN. Have you ever had one?

Mr. HOMER. Not to my knowledge.

The CHAIRMAN. Do you have any Army officers on your pay roll?

Mr. HOMER. I am informed we have not. I know as far as the shipbuilding division is concerned we have not, and I am informed by our steel division that they have not.

The CHAIRMAN. Have you any questions, Mr. Fulton?

Mr. FULTON. What is the total amount of gross business Bethlehem has been doing, that is the whole company, say in the year 1938 prior to the emergency?

Mr. HOMER. Prior to 1938?

Mr. FULTON. Take just the one year, for example, 1938; or if you prefer a different year you could give that, too.

Mr. HOMER. The gross business of the Bethlehem Steel Corporation in 1938 was \$265,999,937.

Mr. FULTON. What was the net profit you figured for that year before income taxes?

Mr. HOMER. That net profit before income taxes was \$6,448,820.

Mr. FULTON. I was just trying to see how the ratio of the profit prior to the emergency years as it ran to the gross business compared with the ratio of the profit as it runs on these shipyards at the \$105,000,000 figure.

Mr. HOMER. '38 was a poor year. I will give you the other years if you want. For 1937 the gross billings for the year were \$418,558,528, and the net profit before income taxes was \$38,697,486.

Mr. FULTON. That is why I thought you might prefer to give a better figure from your standpoint. It would appear that even on the \$105,000,000 basis you would be earning during '38 only about one-third what your rate of earnings would be on these shipbuilding contracts;

no, it is worse than that. I believe you gave a total figure, Mr. Homer, of \$59,000,000 profit before income taxes on your shipbuilding program, which over a 5-year program would mean about 12 million a year.

Mr. HOMER. Yes.

Mr. FULTON. And the 12 million would be about one-fifth of the cost of the shipyard facilities Bethlehem had; so your ratio there would be a profit of about 20 percent; and, of course, using the \$105,000,000 figure, it would be something more than 10 percent as distinct from a profit of around 3 or 4 percent of your gross in the other year.

Mr. HOMER. I don't see how you can apply that profit figure to the ships. This is the consolidated statement for the Steel Corporation, all our activities, and there is no comparison there.

Mr. FULTON. What would be the total amount of the assets of the company that were used in 1938 to get that income of six million? There could be a comparison there, I think.

Mr. HOMER. The difficulty with this is that we are mixing up a lot of steel business with the shipbuilding.

Mr. FULTON. The only reason I asked was because Admiral Robinson had developed a theory that the ratio of expected profit to the gross business which the company was doing in shipping, which companies in general were doing in shipping, was not any different from or any worse than what they were getting in private business, and I thought if that is so, I would like to develop it, but it may be something that we ought to work out privately and in more detail.

Mr. HOMER. Yes; I think to give you the correct figures, it would take a little time to take the statements and make the deductions and additions.

Mr. FULTON. I just wanted to see how Admiral Robinson's theory worked out as applied to a concrete case.

The CHAIRMAN. Mr. Homer, is the Bethlehem Steel Co. continuing its policy in this emergency of paying tremendous bonuses to its president and directors as it did in the last?

Mr. HOMER. No, sir; I think that is quite different today from what it was then. It is definitely limited. The bylaws definitely limit the amount.

The CHAIRMAN. They do receive bonuses in addition to their salary?

Mr. HOMER. Yes.

The CHAIRMAN. That will be all, Mr. Homer. The committee will meet tomorrow morning at 10:30, and Mr. Barnes, of the Todd Dry Dock & Shipbuilding Co., will be the witness.

Mr. Homer, we sent you a telegram asking for certain specific information which I am expecting the Bethlehem Steel Corporation to furnish for the record as set out in that telegram, and any that has not been furnished by you we will request you to furnish.

Mr. HOMER. All right, sir.

The CHAIRMAN. Thank you very much.

(Whereupon, at 12 noon, an adjournment was taken until 10:30 a. m. Thursday, July 17, 1941.)

INVESTIGATION OF NATIONAL DEFENSE PROGRAM

THURSDAY, JULY 17, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING
THE NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Wednesday, July 16, 1941, in room 457, Senate Office Building, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman, chairman; James M. Mead; and Tom Connally.

Present also: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order.

Mr. Barnes, will you stand up to be sworn?

Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BARNES. I do.

TESTIMONY OF JAMES E. BARNES, WASHINGTON REPRESENTATIVE, TODD SHIPBUILDING CORPORATION AND AFFILIATES, WASHINGTON, D. C.

The CHAIRMAN. Mr. Barnes, we sent you a telegram regarding certain matters in which we were interested. If you have a statement which you would like to make, proceed.

Mr. BARNES. I will make that statement. I will give you such as I have, but I didn't get this telegram. I happened to be away.

The CHAIRMAN. Will you give your full name and connections with the Todd Shipbuilding Co.?

Mr. BARNES. Mr. James E. Barnes. I am the special Washington representative of the Todd Shipyards Corporation, Washington representative and agent. In fact, I handle all the Government business of the Todd Corporation.

WORK OF THE TODD SHIPYARDS CORPORATION UNDER NATIONAL DEFENSE PROGRAM

Mr. BARNES. I suppose that the Todd Shipyards Corporation appears to be or will appear to be one of the great war profiteers. At the beginning of the first World War, we were, as now, in the ship-repair business. We had four yards in New York Harbor and one on the west coast of Seattle, that was then known as the old Moran

yard. That was a shipbuilding and repair yard. At that time we were the largest ship-repair corporation in the United States. This being true, we were called upon to do our part in the emergency ship construction program at that time. At our expense, we rehabilitated the old Moran yard, which was later commandeered from us and turned over to Skinner & Eddy Corporation, who built a new yard alongside that plant, and the then Shipping Board felt that they could be better operated by one concern than two side by side, because of labor conditions.

We also constructed a large plant, an eight-way building yard in Tacoma, Wash., which Admiral Rousseau reported to the Navy and the Emergency Fleet Corporation to be the most complete building plant constructed in that war period, as we not only constructed our own hulls, but our boilers and engines.

In this yard we built some 40 ships of the 7,500-ton type.

After the close of the war, in addition to building a combination freight and passenger ship for the Union Pacific, the steamship *Bienville*, which was later destroyed by fire, we built three heavy cruisers for the Navy, the *Omaha*, *Milwaukee*, and *Cincinnati*.

There being no further business for this yard, shipbuilding being at an absolute standstill, the yard was wrecked and the machinery and workmen distributed among our various ship-repair yards.

In the meantime, we had acquired a repair yard at Mobile, Ala., one in New Orleans, and constructed a new repair yard complete in Seattle. Later on, we acquired a repair yard in Galveston, Tex., and put in additional drydocks in this yard, and other improvements.

When the present shipbuilding program began to take shape, we refrained from going into the shipbuilding business. Still mindful that I am under oath, I want to say that we did everything possible to keep from going into the shipbuilding business. We had yards in New York, Hoboken, N. J.; Mobile, Ala.; New Orleans, Galveston, and Seattle. Realizing what happened in World War No. 1, we requested both the Navy Department and the Maritime Commission to allow us to remain in the ship-repair business and increase our facilities in our various yards in order to take care of what we knew would be the heavy demand upon repair yards.

We are now increasing those facilities, and will expand about \$16,000,000.

As I said before, when we ceased construction in our plant at Tacoma, we naturally distributed our personnel and our machinery among the various yards. When World War No. 2 came on, and even after the Maritime Commission entered upon their 5-year program, we felt that we should not go into the shipbuilding business, but continue in the one business in which we had been most successful, namely, the repair business. However, Admiral Land and Commander Vickery, of the Maritime Commission, urged us to go into the ship-construction business, and with much reluctance we took a contract on a bid for 5 C-1 vessels to be constructed in Tacoma, and we constructed there a two-way yard at our own expense.

In the meantime, before going into this shipbuilding business, we took into partnership with us what was known as the Six Companies headed by Mr. Henry J. Kaiser; that is the company that built the Grand Coulee Dam, and those things. We did this because they were outstanding contractors in the West, for that matter in the United

States, and we knew that one of the big problems would be construction of plants and rapid construction of plants. So far we have delivered 3 of the C-1 vessels at a considerable loss to ourselves.

The Navy then started their 70 percent increased program and insisted that we aid them in this program. We took the contract on a fixed basis for ten 1,600-ton destroyers and fifteen 2,100-ton destroyers, making a total of \$156,000,000 worth of work, and the Navy constructed for us a 10-way plant in Seattle.

We have since taken a contract upon the same terms and basis to build 5 light tankers for the Navy at our plant in Tacoma.

In the meantime, the British Purchasing Commission had chosen us as the most likely organization to build for their account 60 cargo vessels at an estimated cost of \$1,600,000 each; and, still associated with the Kaiser group, we constructed a plant at Richmond, Calif., known as the Todd-California Shipbuilding Corporation, to build 30 of these vessels. We also constructed at South Portland, Maine, in partnership with the Bath Iron Works and the Kaiser group, another yard to construct the other 30 vessels.

We found ourselves launched on what we thought at that time was a large shipbuilding program—5 vessels for the Maritime Commission; 25 destroyers for the Navy; and 60 ships for the British Purchasing Commission. But our troubles were not yet over.

Along came what is known as the victory fleet, and for the Maritime Commission we constructed a yard in Houston to build 37 cargo vessels; that is, of the victory type; in Los Angeles, Calif., a yard to build 55; in Portland, Oreg., a yard to build 43; and an additional site in Richmond, Calif., alongside the British yard, another yard to construct 24 cargo vessels; and a new site in South Portland, Maine, a new yard, to construct 16 cargo vessels—these all at a total estimated cost of \$1,750,000 each. So, we now found ourselves with a contract to construct 306 ships of all types at an estimated cost of \$688,337,000, with a total estimated profit of \$50,750,000.

The CHAIRMAN. What is the estimated cost without profit?

Mr. BARNES. And the total estimated profit it was possible to make is \$50,000,000—I wasn't going to deduct the profit—\$50,750,000, of which Todd Shipyard Corporation's share would be \$23,587,134; that is, if we got the total profit it would be possible to make under these contracts. The profit on the 225 of the so-called Victory Fleet goes as low as \$75,000 per ship. The most optimistic person in our organization figures that would be the limit of our profit.

In the meantime, among the 305 ships we agreed to construct for the Maritime Commission and Navy, at Tacoma, 36 of these are the 3-C type, at an estimated cost of \$3,000,000 each, 6 of which have no guaranteed profit, 30 of which have a guaranteed profit of \$90,000 per ship, still holding us liable for any defect of machinery, and so forth, that may occur in the 6 months' period to be paid out of the \$90,000 per ship profit.

I trust the committee will bear in mind that not \$1 of this business was ever solicited by us. We have not maintained in Washington any solicitors or lobbyists, other than myself, to procure any business of this type from the Government.

We have yards in 9 different States, and I am sure there is none of the 18 Senators representing those States that will say we ever approached him to help us get business. If we make a profit, it is going

to be hard for us to live down the fact that we became war profiteers, because starting from nothing except our repair business we find ourselves, in the number of ships being built, the largest shipbuilders in America, in fact, in the world.

Not being in the shipbuilding business at the time of the World War, we have now constructed for the account of the Government 8 ways in Tacoma, Wash., 11 ways in Portland, Oreg., 14 in Los Angeles, 12 in Richmond, Calif., 9 in Houston, Tex., 8 in South Portland, Maine, and 10 at Seattle, making a total of 72 ways.

While the money for these ways has been advanced by the Maritime Commission, the Navy Department, and the British Purchasing Commission, it has been necessary for ourselves and our associates to advance and have the working capital, from which we draw no interest, an estimated \$200,000 per way, making a total of \$14,400,000 working capital. With the exception of the Todd-Bath and additional ways for the Maritime Commission, the Todd Shipyard Corporation is liable for 50 percent of this venture and 35 percent of the Todd-Bath Corporation.

Now, I have in this questionnaire—I had to get these so hurriedly, I haven't the total of these costs—but the cost of the shipyards furnished by the Government approximates forty-eight to fifty million dollars.

The CHAIRMAN. What is that?

Mr. BARNES. Between forty-eight and fifty million dollars is the cost to the Government of the shipyards which we have constructed at their account, and which, by the way, are constructed at no profit to the company.

The CHAIRMAN. Is this \$14,000,000 of working capital borrowed?

Mr. BARNES. Half of it.

The CHAIRMAN. Half of it is borrowed, and you advanced the other half?

Mr. BARNES. Yes; but we have to stand security for it because, naturally, we don't have that much.

The CHAIRMAN. Is that borrowed from the Government?

Mr. BARNES. Oh, no; not from the Government. We borrow it from the banks.

Mr. FULTON. What is your average rate of interest?

Mr. BARNES. I think it runs 2 or $2\frac{1}{4}$ percent, in some instances below that, according to where we are. We have plenty of money offered to lend to us. I mean the banks are rather solicitous of this business, because both ourselves and our partners, I think, have sufficient assets to cover our loans.

Mr. FULTON. What assets did you have in the shipbuilding business at the beginning of the period, at the end of 1939?

Mr. BARNES. Our table shows \$24,000,000 assets of the Todd Corporation.

The CHAIRMAN. How did you come to associate yourselves with the six companies?

Mr. BARNES. As I explained before, having the experience we had had before, we didn't feel that we could venture by ourselves—we had only our repair organization—into the building of these plants. The building of these plants was a big problem. These men were contractors. Our Mr. Lamont, who is the president of our plant in Seattle, had come in contact with these people on the west coast and figured

that they would be ideal partners for us because of their ability to construct plants. As an example, the Seattle-Tacoma destroyer plant started work October 10, 1940. Mold loft work on vessels started February 16, 1941. Construction work in yard on vessels, April 10. Two keels were laid May 1. Total keels laid to date, 5. The sixth keel is to be laid this week. Expect to have 10 keels laid by August 15.

That is less than a year we have constructed this plant and laid the keel. Mr. Knudsen, by the way, I understand, was just out there and complimented our people very highly. He had no idea that anybody had done a construction job of that kind. Even with these "ugly duckling" ships, in three of our yards we have laid keels already, since we have started to lay keels. We couldn't have met the Government requirements of speed unless we had had the assistance of these contractors, with their equipment, and so forth.

The only naval officers we have employed—we have Captain Westervelt in charge of our plant in Houston, Tex. I don't know Captain Westervelt personally. I have just met him. I employed as my assistant Admiral Peoples¹ after he had retired from the Navy, because of his experience in purchases and handling of accounts, and so forth, with the Government, because my office has to collect all of the moneys for these various ships, and that is a big job, and I needed somebody and employed the admiral and put him on the pay roll November 1; but he died in January, so I didn't have him very long. That is the only naval officer we have except Admiral Harris,² who is the former Chief of the Bureau of Yards and Docks and has been retired for a number of years and is recognized as one of the best consultants on drydocks, and so forth, and shipyard construction. He is our consulting engineer.

The CHAIRMAN. Who is your counselor, your attorney?

Mr. BARNES. Cullen & Dykman, of Brooklyn, headed by Mr. Goddard. Mr. Goddard has been in the company in capacity of vice president and general counsel ever since I have been there—26 or 27 years. We don't make many changes in our company unless somebody dies.

The CHAIRMAN. It has been rumored around Washington that you had employed Tommy Corcoran³ as your attorney in order to get these big contracts.

Mr. BARNES. That is not true, because we didn't employ Tommy Corcoran at all. He was employed by Mr. Kaiser in the magnesium business. He has never had one thing on earth to do with the ships. I have been there 26 years, and I would be too smart to do a thing like that for Todd Shipbuilding Corporation. I wouldn't even go in one of your offices. The Senator there is from my State, where we have a large investment, but he can't recall my ever being in his office talking about my business. If Senator Connally was here⁴—we have two yards in his State. In fact, we have yards in the States of four members of this committee, and I will swear that I have never been to any one of them asking about this business, because we didn't want it.

¹ Admiral Christian Joy Peoples, formerly director of procurement, United States Treasury.

² Admiral Frederic R. Harris.

³ Thomas G. Corcoran, considered an unofficial adviser to the President of the United States; at the time of this publication not employed by the Federal Government.

⁴ Senator Connally entered the hearing room later.

We certainly would be too smart to employ a fellow who had been as spectacular in the Government service as Mr. Corcoran, although I think he has a lot of abilities and is entitled to credit. I don't think a fellow ought to starve to death because he has been at the right hand of the President.

The CHAIRMAN. There have been plenty of rumors floating around Washington that the fact that you have the largest number of ships to construct was due to the fact that Mr. Corcoran was your attorney.

Mr. BARNES. He didn't have any more to do with that, Senator—still mindful that I am under oath—than you did. You did help pass the legislation that made it possible for us to get it.

Senator MEAD. Are you principally engaged in the shipbuilding business?

Mr. BARNES. Our business, Senator, as you well know, is the ship-repair business, and we were very happy in the ship-repair business, because we had a tremendous business, and, as I stated before, here in my memorandum I read, we wanted to increase that business rather than to go into the shipbuilding business, and we would have been much better off, as both the Navy and the Maritime Commission can testify, in dollars and cents had we been allowed to stay in the repair business. Following the other war, of all the people who they claimed were profiteers in the shipbuilding business, the only survivors in the shipbuilding business was the Newport News Co., the New York Ship (and it survived by going broke and being refinanced several times), the Bethlehem Corporation, and the Sun Shipbuilding Co.—and Sun started practically at the close of the war.¹ The rest of those fellows all went out of business—all those yards—and you don't hear of any of them now. They had nothing; none of those yards had anything that the Government could draw on to handle the program they are now trying to build, and naturally they had to fall back upon people like us who had been in the business, and they knew that we had kept in our employ—those that are not dead—the employees that we had, men who are experienced in shipbuilding, and they are spread pretty thin now. I will tell you that.

Senator MEAD. You had a well-organized personnel to begin with. Is that it?

Mr. BARNES. Yes; I don't think there was any better.

Senator MEAD. How long has the Todd Shipbuilding Co. been in existence?

Mr. BARNES. The Todd Shipbuilding Co. has been in existence since 1915, but it succeeded the William H. Todd Co., Mr. Todd's own company, which he had taken over when he took the Robinson plant. From that grew out the Todd Co., known as the Todd Shipyard Corporation. I have been with them 26 years, and I am still counted an outsider because I haven't been there long enough.

Senator MEAD. How long would you say the original company was in business before this 1915 reorganization?

Mr. BARNES. Oh, I think they were in business some 4 or 5 years before. I think we have been in business altogether around thirty-odd years.

Senator MEAD. Have you run into any labor difficulties recently?

¹ Mr. Barnes subsequently requested that Bath Iron Works be added to this list.

Mr. BARNES. Not very serious. We have a strike this morning, I understand, down at Galveston. Cleaning up after our general agreement on the Gulf as to what would be the terms, and so forth, apparently our fellows or the Galveston fellows didn't understand it. Again, I wish Senator Connally were here. They are a little hot tempered. They strike quickly, but they come back rather quickly, so we are giving them a chance.

Senator MEAD. You haven't had any trouble around Greater New York?

Mr. BARNES. Not lately; not for some time. In fact, we have never had any labor trouble that was serious.

Senator MEAD. So your business was originally repair business?

Mr. BARNES. Except for our building experience in the World War.

Senator MEAD. At the instance of the Government, you got into this building business?

Mr. BARNES. Very much at the instance of the Government. Both the Maritime Commission and Navy must testify that we were very reluctant to go into the business.

Senator MEAD. Did you open up a number of shipyards around the country as a result of your experience that weren't in operation—facilities that were there?

Mr. BARNES. Nothing was there on any of them. Nine new plants were built.

Senator MEAD. Who picked out the sites?

Mr. BARNES. Well, the Maritime Commission and the Navy picked the locations, the communities in which they wanted the plants, because of labor conditions. Naturally, we had to go where there was labor available.

The CHAIRMAN. Have you had any difficulties getting labor to man these yards?

Mr. BARNES. No, sir; the same thing was testified by Mr. Homer yesterday in reference to the training of workmen, and so forth, and the same thing is true with us. We carry schools in all these plants. These ships are practically all welded now. We have gotten away from the riveted type. It used to take a long time to make a riveter, but they can make a welder in 6 or 8 weeks.

The CHAIRMAN. Do you fabricate these ships in these yards from plates of steel that are shipped there?

Mr. BARNES. That is right. They are welded together up to 30- or 40-ton pieces. At the head of these ways are welding platforms. These various sections—bottoms and so forth—are welded together, and heavy cranes come along and pick them up and set them down in, and they are welded back up. It is a different method of building ships altogether from that before.

The CHAIRMAN. From whom do you get most of your steel?

Mr. BARNES. Most of ours is from Bethlehem. They are our competitors.

Senator MEAD. Unlike Bethlehem, though, you have no wealth of raw materials.

Mr. BARNES. We have not.

Senator MEAD. And you have no steel-making departments.

Mr. BARNES. I haven't found, Senator, where they have any advantage over us in the shipbuilding business in that. We haven't found

any instances yet where there has been any favor shown Bethlehem shipyards in giving them steel ahead of us. In fact, it is all under priorities, and we would make an awful fuss if they did that. They wouldn't do it, anyhow.

Senator MEAD. In the aggregate, they may make more profit than you do, but that is because of their diversified business.

Mr. BARNES. Oh, surely. They do that in any event.

Senator MEAD. They have raw materials; they have the finished materials; and then they have the shipbuilding department.

Mr. BARNES. That is right.

Senator MEAD. But you don't find that a disadvantage, as far as you are concerned?

Mr. BARNES. Not a bit. They don't take any advantage of us at all. In fact, they couldn't under the priorities system. It would be impossible to do it. We have always been customers of Bethlehem. It wouldn't pay them to do it.

Mr. FULTON. In connection with this repair business, I noted that one of your companies made something like 35 percent on the total gross cost to repair.

Mr. BARNES. I think they fudged a little there. I think it was nearer 40.

Mr. FULTON. Will you tell us something about that? That was the percentage of profit based on the cost of making the repairs.

Mr. BARNES. I want to explain that, Chief. When the Navy began to seize all the ships in the country, which they did—a large number of ships—they all had to be remodeled, changed into various types of ships—transport, ammunition carriers, hospital ships, and what not—and the navy yards found themselves chock-a-block with work, because the Navy had kept them filled up, and they had given us no work. We had no Navy work in peacetime. There was no place for expansion in the navy yards, so they just simply covered us with work. They gave us what was then our going rates. That was so much per day per man, so much for machine tools, and so forth.

Well, those rates enabled us, under the medium volume of business we were doing, to make a living profit, but when they piled all this other work on us, which didn't materially increase our overhead and operating expenses, the profits went hog wild, as you can naturally understand, with that volume of business. We knew what was happening. There was nothing we could do about it. We offered to give some of it back, but our lawyers advised us if we did, we would have to admit it was a profit. Even though we gave it away, we would still have to pay taxes on it, so we couldn't give it back to them.

We agreed, along with the Navy, for a modification of these contracts, for a general reduction all the way down the line, and also agreed that if that reduction didn't produce what we were aiming at in the repair yards—a 10-percent profit—we would bring it down still lower, and also that if it got too low, we would bring it back up.

Even though we lose money on a Navy ship, the Navy has no way of reimbursing us; and vice versa, if we make too much on a Navy boat, we don't have any way of getting it back to them except through taxes. We couldn't go and say, "Here, we made a million dollars too much," because we would be stuck too much. We are not denying we

made profits in that, mind you. That only applied to the ships that had been completed and the contract closed.

When the new agreement went into effect, all the ships where the accounts were still open and pending took the new rating, so it isn't so bad as it looked in the paper. It looked pretty bad in the paper. I will admit that.

Mr. FULTON. As I understand it, the rates for labor, for example, were set at an amount quite a bit higher than the salaries.

Mr. BARNES. They had to be. And then there was overhead, but not so bad as the overhead we had in the other war. Before, they made us take contracts of direct labor plus 50 percent overhead, material plus 10 percent handling charge, and 10 percent profit over all. In the meantime, during the life of this contract, wages were raised a flat \$3 a day. Now, that added to the profit we were already making, gave us a profit of \$1.80 a day on every man we had, and I think we had around 35,000. If it hadn't been for taxes, we couldn't have handled our profits with a steam shovel. At the same time, the small fellows went broke, even at those rates. Being mindful of that, they cut that out and made us apply to each individual man the same rates we had been charging our private customers before this tremendous volume of business piled in on us. So naturally, we have made profits, outrageous profits. There is no denying that, because it is there. There is no use lying about it.

Senator MEAD. That isn't true now.

Mr. BARNES. Oh, no. We have reduced it down to where there is a 10-percent real profit, which they admit that a repair plant must have in order to exist because that business is so fluctuating. We may be full of work today and out tomorrow.

Senator CONNALLY. That 10 percent is after the taxes are paid or before?

Mr. BARNES. No, Senator; nothing after taxes are paid. That is all before taxes.

Senator CONNALLY. I am on the Finance Committee, and I want to use this information from a tax standpoint as well.

Mr. BARNES. Last year you were going to take all over \$10,000 that we made.

Senator CONNALLY. We don't seem to have gotten it all, because it seems that you have a pretty good hunk here in these figures.

Mr. BARNES. There is about 40 or 50 million dollars there, if it turns out all right, in profits with very little investment. We are not kicking on taxes. You have never heard anybody with us complain.

Senator CONNALLY. I am glad to hear that.

Mr. BARNES. We have two shipyards in your State, and I know you are interested in putting up high taxes, although I have never been in to see you.

Senator CONNALLY. We have got to tax somebody to get the money to pay your profits. We can't pay you \$50,000,000 profit unless we get some taxes from somewhere.

Mr. BARNES. We are not entitled to have \$50,000,000 left, either, and we won't have \$50,000,000 left, Senator. We estimate that on

these "ugly duckling" ships if we get two-fifths of 1 percent profit, that will be fine.

Senator MEAD. Two-fifths of 1 percent?

Mr. BARNES. That is right. That is a big profit on the volume, at that.

Mr. FULTON. Would you tell us something of the nature of these arrangements that you had with the admiral you referred to as having been retired and subsequently hired.

Mr. BARNES. Admiral Peoples?

Mr. FULTON. Yes.

Mr. BARNES. Of course, he is dead now. With the volume of business we are doing and with the short time—we have to collect around \$1,600,000 to \$1,700,000 a day from the Government in order to exist—I had to have someone who was familiar with accounts to find out, when the shipyards got over their working capital, why their bills weren't sent to the Government, why we weren't being paid by the Government, what was wrong with the bills, and so forth. There was no thought, naturally, of Admiral Peoples' standing. Nobody would ever suspect that anybody would be able to hire him to do anything, because if he wanted to be crooked, he had plenty of opportunity in his 6 years as General Purchasing Agent of the United States Government to be so fixed that he wouldn't have to work, and I can testify that he died broke.

Mr. FULTON. I think you named another naval officer.

Mr. BARNES. That is Captain Westervelt. He was retired and was with the Harris Engineering Co., and was sent by Harris to take charge of construction of our plant in Houston, Tex. Knowing of his knowledge of construction and of his knowledge of shipbuilding, while he was there we employed him as vice president in charge of construction at the Houston Shipbuilding Co.

Senator CONNALLY. Is he there now?

Mr. BARNES. Yes, sir.

Mr. FULTON. There were never any contracts for payment of fees contingent on the size of the volume?

Mr. BARNES. Oh, no; nowhere.

Senator CONNALLY. May I ask a question?

But, Mr. Barnes, while the employment of these retired officers was probably legal, it seems to me there is a question of ethics which probably wouldn't appeal to your company, but it ought to appeal to these retired officers. Here is a general or admiral who has been retired. He is on the Government pay roll as a retired officer. He is subject to be recalled to the Army or the Navy at any time, and it seems to me that that policy, that practice, raises a very acute issue as to the ethics of an admiral's or a general's working for a company that is getting Government contracts and things of that kind. Of course, I can understand why a company would want to employ them. They have contacts in departments and familiarity with officers that are valuable, no doubt, to the company, but it seems to me that, from the standpoint of the officers themselves, there is a rather serious question of ethics there as to whether they should accept employment of that character.

Mr. BARNES. Well, I may say this, that in both of those instances and in any instance where a naval officer is employed, they have been rec-

ommended to us by the Department itself, by the Navy Department or by the Maritime Commission.

Senator CONNALLY. I am not raising any personal issues.

Mr. BARNES. We couldn't hire one of them without—

Senator CONNALLY (interposing). I am not making any issue of any particular individual, but it does seem to me that that is a very serious question of policy. We retire these admirals and generals and give them three-quarters pay, which is supposed to take care of them. I notice, though, that just as soon as they can get out on either retirement or the 30-year rule—I suppose it has been reduced now; they are passing such liberal legislation for the Army—most of them, or a great many of them, go out and get a job somewhere and get the retirement pay also.

Mr. BARNES. The Navy feels, I think, that for a man to reach the age as a captain, who should have been or expected to be made an admiral and has been passed over, to a certain extent deteriorates his usefulness to the Navy because of putting men who were junior to him over him. None of us would like that, you know. So when we were in need of help, in fact, they volunteered, and Secretary Knox got very generous. He was going to divide with us because we were having to spread out so thin. When it came to a show-down and we wanted some younger men, he wouldn't let us have them. We wanted them for their technical knowledge. Contacts weren't worth anything.

Senator CONNALLY. I am not especially criticizing your company, because naturally you are going to get the fellows that you think can do the work and also get some contracts, if possible.

Mr. BARNES. A further analysis of that—

Senator CONNALLY (interposing). When you get in difficulties with the Government you want some admiral who can go over and say to his old side-kick, "Now, look here, we will just get this fixed up."

Mr. BARNES. We have seen the experience of men who have been in Congress who have tried to influence Congress after they got out. They are all gone and didn't do any good. They weren't worth their salt. A Navy officer isn't worth his salt who would do that. If he has a better job than an admiral has in the Bureau and is sent in there, they will kick him out or pass him over. It has no effect as far as that part of it is concerned. His contacts in the Navy are not worth 5 cents as far as contacts go. The only thing he is worth is his technical knowledge of the business he is doing.

You have seen it. You have been here a long time. We have been here together, and we have seen hundreds and hundreds of men who were in Congress who thought that because of their contacts in Congress they could sell Congress.

Senator CONNALLY. I am not approving that policy any more than I am the other. At the same time, an ex-Congressman or an ex-Senator is not getting Government pay; he is not drawing a salary from the Government.

Mr. BARNES. He is not doing his employer much good, either.

Senator CONNALLY. But the retired admiral and the retired general are sitting over there drawing a Government check every month on the theory that they can be recalled to active duty, and when this emergency comes on, some of these people might be recalled, you can't

tell. Yet, when you recall them, they are all tangled up with some company that has had a contract or got a contract with the Government. I don't think that is very good ethics.

Mr. BARNES. We have one captain of the Navy, who has been passed over as an admiral, out of the total number we have employed. I don't know him personally.

Senator CONNALLY. I am not making any personal attack on any of these individuals, but I do raise the general issue of the ethics of that sort of practice.

Mr. BARNES. It may not seem ethical, but it seemed a shame to have a fellow 53 or 54 years old, a captain of the Navy, who has been passed over and retired, who has great technical knowledge, and have nobody able to use it, just leaving him there idle in an emergency of this kind.

Senator CONNALLY. The Navy ought not to retire him.

Mr. BARNES. It can't keep him from retiring if he wants to retire. He has a right to retire.

Senator CONNALLY. He hasn't a right to retire except on age.

Mr. BARNES. After he reaches the age, is passed over, or after he has 30 years' service.

The CHAIRMAN. The committee will recess until Monday morning, when we will go into the small-business contracts.

Mr. BARNES. Mr. Fulton, would it be agreeable to you if I revamp these figures and the telegram and things? I will put it in shape and send it to you.

Mr. FULTON. That is agreeable.

(Whereupon, at 11:15 a. m., an adjournment was taken until 10:30 a. m., Tuesday, July 22, 1941.)

INVESTIGATION OF NATIONAL DEFENSE PROGRAM

TUESDAY, JULY 22, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE
THE NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Thursday, July 17, 1941, in room 318, Senate Office Building, Senator Harry S. Truman, presiding.

Present: Senators Harry S. Truman, chairman; and James M. Mead.

Also present: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order. Mr. Bentley, will you please take this seat over here? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BENTLEY. I do.

The CHAIRMAN. Will you give the recorder your name and address and your business, please?

TESTIMONY OF C. H. BENTLEY, PRESIDENT AND GENERAL MANAGER, WEBB CITY & CARTERVILLE FOUNDRY & MACHINE WORKS, WEBB CITY, MO.

Mr. BENTLEY. My name is C. H. Bentley. I am president-general manager of the Webb City & Carterville Foundry & Machine Works, at Webb City, Mo.

EFFECT OF PRIORITIES ON SMALL PLANTS

The CHAIRMAN. Mr. Bentley, this committee is very much interested in the situation of manufacturing plants such as yours with regard to priorities and their present condition brought about by a cutting off of supplies of steel and things of that sort. Will you please tell us something about your condition?

Mr. BENTLEY. I might go back in our institution and give a little of the back history so that you can see our position. We have been in business for about 50 years. The institution primarily on a 100-percent basis furnished mining machinery in the zinc mines in what is called the tri-State district, in what represents Oklahoma, Kansas, and Missouri. Back in the old years we built light machinery, but in late years we increased our capacity until today we are building very heavy equipment and, as a result, the various mills have gone into larger production—less mills, but greater capacity mills. We are

having a lot of difficulty now in buying alloy steel, which is a great improvement over the cheaper grades of steel, and we, being rather exclusive in our line, due to our capacity, can't get the steel which is necessary for the repairs down in the mining field.

In the event we don't get the steel and the necessary materials, of course, there is only one alternative, and that is to close down, and if we close down I just don't know what the mining fields will do, because 75 percent of the production of that particular field, the zinc field, is within a few companies which operate our primary breaking equipment, and as we are practically the only people west of the Mississippi River with capacity big enough to build the primary breakers, I don't know what they would do down in that mining field.

The CHAIRMAN. That is primary breakers on the order of crushers, isn't it? They crush the rock that contains the ore and send it down over the jigs, and that is the way you get the zinc ore out of the rock. Isn't that true?

Mr. BENTLEY. That is right.

The CHAIRMAN. Have you ever made an effort to get any of these defense contracts?

Mr. BENTLEY. Oh, yes. We made a big effort.

The CHAIRMAN. Have you had any success?

Mr. BENTLEY. Nothing but subcontracts.

The CHAIRMAN. How do you get these subcontracts?

Mr. BENTLEY. Through concerns we have been associated with, such as Ryerson, Bethlehem Steel. Those are the two subcontracts we have had.

The CHAIRMAN. Do you get these subcontracts on bids or by allocation to you?

Mr. BENTLEY. No; we bid on those jobs.

The CHAIRMAN. Has your mill as yet been affected by the priorities orders on steel?

Mr. BENTLEY. Oh, yes. We have closed down one of our departments, that is our heavy sheet-metal department, because of trouble we have getting heavy plates. We are having to substitute, in a great many instances, and each time we place our orders the shipments are getting farther and farther apart and slower all the time, and we are facing a situation on alloy shafts that go into these big breakers. We are substituting it for far inferior products in order to get it, and even those are getting slower. We have been notified, unless we have priorities, that we probably can't get that.

The CHAIRMAN. Has it ever been considered that your company would be entitled to priorities on account of the fact that its machinery is used to produce one of the metals which is now decidedly short in the market?

Mr. BENTLEY. I might tell you our past history in the last war. We never were held up for an item of any kind because we were strictly on priority throughout, a blanket priority, and we were never denied anything.

The CHAIRMAN. But you are not under a blanket priority today?

Mr. BENTLEY. We are not under a priority at this time.

The CHAIRMAN. Evidently a complete survey hasn't been made in the setting-up of these priorities. Have you any questions, Mr. Fulton?

Mr. FULTON. As I understand it, you manufacture machinery which is necessary for the operation of a zinc-mining field in the tri-State area that you spoke of.

Mr. BENTLEY. Yes, sir.

Mr. FULTON. Without that machinery, the zinc mines would not be able to continue operation?

Mr. BENTLEY. They could continue by redesigning all their mills and going into much smaller capacity machinery, but as the mills are all set up, 75 percent of the production goes through our heavy equipment.

Mr. FULTON. And if they redesigned they would still have to have the machinery built.

Mr. BENTLEY. Oh, yes.

Mr. FULTON. Which would be just as much a drain on materials as building the machinery of the type you are now using.

Mr. BENTLEY. Possibly more, because that is much smaller stuff and it would take more of it.

Mr. FULTON. And there isn't any priority of any kind that assists you in getting materials necessary to keep supplying machines for the vitally necessary purpose of obtaining zinc?

Mr. BENTLEY. Not at this time. We hope to get it. We have just now started.

Mr. FULTON. You said, I think, that some materials you are not able to get at all at present?

Mr. BENTLEY. That is right.

Mr. FULTON. For instance, plates, which has shut down one part of your plant?

Mr. BENTLEY. That is right.

Mr. FULTON. Does that mean there were tools which were capable of being used and were being used before that which now are idle in that part of the plant?

Mr. BENTLEY. They are not only idle, we sold them because we saw no chance of getting materials.

Mr. FULTON. And I think you mentioned manganese to me. Are you able to get manganese?

Mr. BENTLEY. We have been, without a bit of trouble, until recently we have been notified that we should stock up, but I think we have waited too long now for that. The manganese we use as abrasive plates on big crushers and rollers, and that is secured from the American Manganese people, and that, of course, goes along with the same heavy breaking equipment that I spoke of awhile ago. We can't manufacture iron in our territory strong enough to hold it. It has to be done through manganese.

Mr. FULTON. Then there is no substitute for the lack of this material that you need?

Mr. BENTLEY. That is right.

Mr. FULTON. And in some cases have you been able to make substitutes?

Mr. BENTLEY. Yes; we have in a great many cases, but it is, of course, a worry. We also manufacture an item that goes into the modernization of old lathes in mining-machinery equipment, machine-shop equipment, of which about 90 percent of it is going to the Government through various second-hand machinery houses, and we are

substituting common bars for alloy bars from which to make gears. We are falling way behind in our production, due to lack of bearings.

Mr. FULTON. This is production which would relate to a defense article, machine tools?

Mr. BENTLEY. Absolutely correct.

Mr. FULTON. So that even on the question of reconditioning machine tools or providing gear boxes and other things, you are not able to obtain the necessary bearings and other material?

Mr. BENTLEY. That is right.

Mr. FULTON. For which there is no adequate substitute?

Mr. BENTLEY. No; there isn't.

Mr. FULTON. So that there, again, your capacity is not being utilized and you are daily sustaining a greater shortage?

Mr. BENTLEY. All the time.

Mr. FULTON. Are there any priorities that assist you in that respect?

Mr. BENTLEY. We have attempted to get priorities through our Kansas City efforts, but so far have failed. I believe there is to be a priority representative there before long, and through that authority we expect to get some priority on part of our equipment, but as we find through the various houses that we are buying from, they ask us for priority on the particular item that material is to be used in, which is pretty hard, sometimes, to give on each individual case.

Mr. FULTON. For example, I suppose in producing an article you have to assemble a number of different pieces of material, and some of it semifinished stuff, such as bolts and nuts and plates and things of that kind.

Mr. BENTLEY. Exactly.

Mr. FULTON. Are you having trouble getting any of those individual parts?

Mr. BENTLEY. Yes, we are; we are having a lot of trouble.

Mr. FULTON. For example, if you can't get bolts and nuts that are necessary it wouldn't do you much good to have a surplus of other parts of your equipment.

Mr. BENTLEY. That is right.

Mr. FULTON. Would you tell us something about the size of your plant?

Mr. BENTLEY. Well, we are surrounded by a 12-acre fence, and our buildings cover about 4 acres of that 12. We have a tremendous investment there. Our employees are men who have served most of their lives with us and most of them have raised their families there and they own their homes. We employ at the present time about 100 people. We have a capacity for as many more, and there is lots of local labor available—good mechanics, fellows that don't care to go into the industrial centers at all to work. They would much prefer to stay in the territory in which they have been raised and in which they raised their families. They are all English-speaking labor. The capitalization is \$380,000, and if we don't get it, naturally the machinery is going to be disposed of, and that means a loss of labor to those men, as well as a good institution.

The CHAIRMAN. Are there any other machine shops in that neighborhood in the same condition that you are?

Mr. BRENTLEY. Yes; they are all in the same condition; not as bad as we are, because they furnish repairs. We furnish the primary equipment, and they furnish repairs for it as they can get it.

The CHAIRMAN. Most of the other machine shops are repair shops?

Mr. BENTLEY. That is what they are.

The CHAIRMAN. There is a large number of them in that tri-State field, isn't there?

Mr. BENTLEY. A very large number.

The CHAIRMAN. And they all have a certain number of machines that are busy a substantial part of the time if they can get the material to work with?

Mr. BENTLEY. Yes; I think that is true.

Mr. FULTON. Do you yourself have a lot of machinery and tools which you could use if you had the materials to use them with?

Mr. BENTLEY. Yes; we have a lot of machinery that could be thrown into work, in addition to the hours that they are now working.

Mr. FULTON. And would it be possible for you to sell and dispose of the product that you could make if you had the materials?

Mr. BENTLEY. Every bit of it.

Mr. FULTON. So that it is a shortage of materials and not of labor or of tools or of inability to sell what you produce?

Mr. BENTLEY. That is right.

Mr. FULTON. Have you had any trouble with suppliers of materials which leads you to think that you might be discriminated against, or is it just that the materials are short and you haven't got priority?

Mr. BENTLEY. No; we have not had any trouble with suppliers. As I say, we have been in business for 50 years, and are well established, and all those concerns would give us, I am positive, priority over the others that are not protected by priority ratings. They are very friendly with us.

Mr. FULTON. So it is a shortage of materials rather than a discrimination.

Mr. BENTLEY. That is right.

Mr. FULTON. Have you tried to get prime contracts for defense items?

Mr. BENTLEY. Oh, yes.

Mr. FULTON. Have you been able to?

Mr. BENTLEY. Our principal reason is everyone we have had a chance to bid on has been so large that we would have to dispose of our regular line of business to take care of it, and that we didn't want to do.

Mr. FULTON. You wanted a smaller contract than those you could bid on?

Mr. BENTLEY. Yes; because we want to be in business after this war is over, and yet we have capacity far beyond our present demand in our lines.

The CHAIRMAN. That is all, Mr. Bentley.

Mr. Williams, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. WILLIAMS. I do.

TESTIMONY OF PIERCE WILLIAMS, SPECIAL FIELD REPRESENTATIVE, WORK PROJECTS ADMINISTRATION

The CHAIRMAN. Will you give your name and connections to the reporter?

Mr. WILLIAMS. Pierce Williams, formerly connected with the Labor Division of the O. P. M. I am regularly connected with the headquarters staff of W. P. A. What I have to offer is based on some 8 months' experience with the farming-out activity in the O. P. M.

PROBLEMS IN DEFENSE PRODUCTION

Mr. WILLIAMS. Mr. Chairman, in the hope of facilitating the committee's work, I have jotted down six points, and I will just touch briefly on them. I think they will serve as a framework within which you can then bring out any specific points with which you are concerned. If you want to interrupt me, please do so.

The first point: It is obvious the total resources of the Nation have to be harnessed to defense production. To say that we can do this job by leaving any part of our productive facilities unutilized is like a small boy who says he can lick a giant with one hand tied behind his back. We can't run that risk.

The second point, I think, is this: Under normal conditions we have a situation in which supply is always in excess of demand. I think we have to radically transform our point of view and recognize that in a defense situation there is an insatiable demand for goods. In fact, we never have quite enough of anything to meet our requirements. It is just another way of saying we can't afford to leave any part of our production out of use.

My third point is to emphasize to the committee two points which I think would help to bring full production of the country into defense. First is the idea of pooling of production capacity on a local basis. Equally important is the simplification of a procurement procedure so that we substitute the negotiation of contracts for competitive bidding. Then I shall discuss the benefits of pooling as I think we have seen it in one or two cases, give you some examples of local community production pools, and show how that might be applied to the entire country.

My fourth point, then, is to discuss the importance of negotiating contracts, giving some educational orders to small plants in pools so that they may learn how to meet the Government's requirements; in other words, to take defense business right to the doorsteps of the local communities.

The fifth point is that from the standpoint of the welfare of the country as a whole when the emergency is over, we must utilize industrial capacity where it is and not make the mistake of sacrificing small local industry for the sake of having enormous nationalized plants.

Then my sixth point is some suggestions as to organization by which we might achieve full utilization of the country's capacity.

POOLING OF PRODUCTIVE CAPACITY TO UTILIZE SMALL BUSINESS FACILITIES

Mr. WILLIAMS. I think the importance of pooling is this: It gives us the means of integrating—

The CHAIRMAN (interposing). By pooling you mean the association of several small plants in the construction of one contract?

Mr. WILLIAMS. Not necessarily; just the association of a number of small plants in one area, based on the fact that a single small plant may not have the diversity of tools to enable it to handle a very elaborate contract. But if we take an area like Kansas City, with which I happen to have some familiarity, and survey the equipment of perhaps 200 plants within reach of Kansas City, if we can find some means of associating them without any loss of individual ownership, without the loss of autonomy or initiative on the part of the management of those plants, we have all the benefits; in fact, I think a good deal more than the benefits of one enormous plant.

An aggregation of plants which are associated in this pooling arrangement is capable, it seems to me, of taking on almost any contract, no matter how complicated it may be. It may take that work on as subcontractor or for some prime contractor, or, better still, it seems to me it may take on that work direct from the War or Navy Department. Obviously, the War and Navy Departments won't negotiate contracts with a multiplicity of very small plants, but I see in the pooling idea the possibility of the War and Navy Departments negotiating with the association on the basis of the diversity of equipment in all these plants, so that from the standpoint of the Government you get all the benefits of doing business with one enormous concern.

The CHAIRMAN. Has any concrete effort been made to organize these pools?

Mr. WILLIAMS. Yes. In the Labor Division of O. P. M., beginning last September, I was called in to assist Mr. Morris L. Cooke in what we called the farming-out activity, and we found before we had gone very far that there was an interest in many communities in organizing what they called pools. They weren't very clear in their minds as to just how to do it, but they seemed to sense that their small plants could only do business with the Government if they could somehow associate themselves together so as to secure the advantages which the Government wanted in dealing with one big concern.

I think Lancaster County, Pa., has been a very interesting example of how that pooling idea could be worked out. That is a community up here in eastern Pennsylvania, in which you have two large plants, the Armstrong Cork Co. and the Hamilton Watch Co., and then you have a number of rather small machine shops and metal-working plants which make specialties for consumers' goods. Lancaster County is different from York County, in that in York County you have a number of plants which are really big engineering plants, and those plants are used to taking on any kind of job—within their own field, of course—that you want them to do; and the fact that it may be different from what they have done before doesn't bother them in the least. Lancaster County's shops are inclined to specialize, and it is a little

more difficult for them to get outside of the line of something they have always done.

Now, they got the idea that they could perhaps get further with defense by associating these plants together, and they set up what they called the Manufacturers' Cooperative Defense Committee of Lancaster County. They borrowed the services of a young engineer from one of their local plants, and he acted, in a sense, as sort of a supersalesman and sales engineer for the association of these plants.

Finally, after some months of organization and studying the plants to find out what they had, bringing the association to the notice of the Government departments, they were able to get some work from, I think, the Philadelphia Navy Yard. Now, the Navy Department said, "We can't, of course, give a contract to your committee. Your committee has no legal stability, but we see no reason why we shouldn't give a contract perhaps to one of your plants with the understanding that the work was to be distributed out among all the other plants that could do something."

Now, then, this happened to be some very, very simple work, but it was the kind of work that probably never would have been placed with the individual plants as individuals. But when the Navy Department could be shown, you see, that the aggregate output of all these plants was considerable, they became interested. So, in effect, the association of these plants multiplied the production of a number of plants which would have gone completely unutilized if they had had to be treated as individuals.

The Kansas City activity has gone through several stages, starting with what was known as the Mid-Central War Resources Board, which was merely, in the first instance, an attempt to make known to the different departments in Washington the existence of a relatively large volume of metal-working capacity within reach of Kansas City. Now just within the last few days I am informed that that pooling has gone a little bit further in the setting up of a special corporation under the laws of the State of Missouri which doesn't in any way run counter to the antitrust laws but which will permit this new corporation, as representative of, at the outside, 100 metal-working plants in that area, to do business with the Government.

I understand, also, that that new corporation has approached the Government, and it looks as though the Government is interested, because you see from the standpoint of the War and Navy Departments it is a remarkable increase in the facility of contacting local industry if, instead of trying to do business with one or two hundred relatively small concerns you can approach all those concerns through one office. This office is staffed in a voluntary way by the best engineers in these various plants. These engineers not only know the machine tools of their own plants, but they know what machine tools are in all these plants. They are able to visualize all of the tools in these various plants, as I say, almost as though they were one plant, and the moment you commence to look at these different plants not as separately owned enterprises but just as groups of machine tools, then, of course, you see possibilities of integration of those different tools in ways which didn't exist before; because, as long as each fellow merely thinks of his own little shop, with possibly 20 tools in it, he is limited in perhaps the complexity of the work he can do. As soon as you think of

all those tools as being, for all practical purposes, 1 plant—and that is what you get when you associate them in this informal way—then that aggregation of plants is able to take on work which perhaps a \$50,000,000 corporation only could do.

The prospects seem to be good in Kansas City for utilizing the machine tools and metal-working capacity in these plants by having this association, these associated plants, as the contact agency with the War and Navy Departments.

The business of that pool, as we would call it, is first of all to find out from the War and Navy Departments what work they want done that we are having difficulty in getting done. That is, in almost any kind of a Government job there probably will turn out to be some parts which, for all sorts of reasons, were causing difficulty; they couldn't be turned out perhaps in the requisite quantity to insure the completion of this job on schedule. Now the War and Navy Departments can indicate to this kind of an association what these parts are, can furnish blueprints and specifications. The association, knowing a good deal about the capacity of the tools in its area, is able to say: "Well, these particular things we know we can do. This subassembly we know we can do. This is a rather complicated assembly; we know we can do that." That may not all be made in 1 plant. We may distribute this stuff around among 100 different plants, and the subassembly may be made in 1 plant operating on behalf of 6 or 7 plants; a much more complicated assembly may be made in plants which have a fine engineering staff pulled together from various other plants.

That scheme of pooling which has been worked out in a very small way in Lancaster County we are very sure is going to work out in a very large way, relatively, in Kansas City.

I think another important aspect of this pooling idea is this: That as the sense of urgency in this crisis becomes more acute we shall come to realize that we have to think of the machine tools of the country, the machines, the men who operate them, and the managers who determine what those tools shall do, in pretty much the same way in which a commanding general visualizes his army. Your commanding general, of course, doesn't know where every private is at a given moment, but he has an organization which he knows will be able to tell him that every man is in his place at every point in that army. Similarly, I think with our metalworking capacity you can't possibly centralize, you can't develop any scheme in Washington by which you will know everything about all the machine tools, the millions of machine tools in the United States, but you can have a set-up by which in every industrial area of the country you have a pool which not only knows where every machine tool in that area is, but, more important still, knows how much time is available on each one of those machine tools. In other words, the important thing about machine tools is what we call the machine hour; just as the kilowatt is the measure of electrical energy, so the machine-hour is the measure of what a machine tool can do. Each machine tool has theoretically 24 hours during which it can work. It may not practically be able to work more than 20 hours, because it may not be desirable to work shifts of men more than 10 hours.

By having the country organized in industrial areas in which various plants are pooled in this informal way we not only can get the

benefit of that production for defense but we can know from week to week exactly how much time becomes available on each machine tool, because a machine tool may be busy for 2 weeks and suddenly run out of work, you see. Now, if the committee or the pool in that place knows, for example, that a certain type of boring machine 2 weeks from today will be out of work it will have machine-hours available, it is in position to feed into that machine some work which will keep that machine tool going.

The equally important thing, I think, to the pooling idea is the substitution of the negotiated-contract idea for competitive bidding. Now it is relatively simple to develop these pools. We found in Mr. Morris Cooke's office that there was great interest in these communities in developing pools, but we weren't any more able to get them business after the pools were organized than we had been to get business for the individual shops, and I think most of the difficulty there is due to the fact that at that time—I am speaking now of, say, 2 months ago—there was perhaps too much emphasis in the War and Navy Departments on competitive bidding. Now, competitive bidding is, after all, a system which functions when you have a good deal of surplus capacity, because then the man who has the most idle time on his machines wants the business worst, is likely to put in the most favorable price; but when you are trying to utilize all of the country's capacity and you know there is enough business to keep every machine and every mechanic in the country busy, I don't think there is anything gained by asking people to put in competitive bids. The net result of that may simply be that a concern which is perhaps the best equipped to turn out a particular type of work may continue to bid lowest on that job, but only at the price of postponing the delivery date.

I think the essential difficulty is this: To get out of our mind the idea in this defense emergency that it is up to the individual businessman to sell to the Government. That is a rather difficult idea to get, because we are so used to the idea of a man's selling something that he has in competition with other people; but in this situation, where the Government is really the only customer that would ultimately be for 30 or 40 percent of the country's output, it seems to me it is up to the Government to take the initiative and reach out into the country and find work which these tools and their mechanics and their managers can successfully do.

So I come to this matter of negotiated contracts. After all, the most important part of the defense program is being done on negotiated contracts and not on competitive bids. Most airplanes are built on that basis. We are establishing great factories all over the country with the idea that when they are built airplanes and tanks and other things will be turned out.

The CHAIRMAN. We talked to the Bethlehem Shipbuilding Co. a few days ago, and they had more than \$1,000,000,000 in negotiated contracts.

NECESSITY FOR GIVING SMALLER PLANTS "EDUCATIONAL" ORDERS TO SPREAD DEFENSE WORK

Mr. WILLIAMS. Yes; here is an illustration of the point I want to make: When we talk about educational orders, we must take educa-

tional orders to the smaller plants. For example, I was shown yesterday a circular in which the Chrysler Corporation was calling attention to the remarkable progress they had made in establishing what they call their tank arsenal at Detroit. I think the opening line was this: June 12, 1940, Mr. W. S. Knudsen telephones Chrysler Corporation president, Mr. Keller, and says, "Can you make tanks?"

"Yes," replies Mr. Keller. "Where can I see one?"

You see, that is the whole point: "Where can I see one?" Mr. Keller, of course, didn't mean that he was going to have any fun just looking at the outside of a tank. What he really was saying, in an engineer's way, was: "I want to take that tank to pieces; I want to see all of its parts. I have got to figure the cost on all of those parts. I have to figure how I will make them, how I will assemble them, and then I can give the Government some idea of what it will cost, and the Government's engineers will sit down with me, and together we will arrive at a reasonable price for making that tank, based on the cost of labor and materials and a fair profit to myself"—and that is perfectly reasonable.

I want to emphasize a point which was brought to our notice out of the British experience. In a memorandum they sent out about the subcontracting of airplane work, they used a word in quotation marks none of us had ever seen before. They referred to the "exploded" view of an airplane. This is very important in order to utilize the capacity in the small shops. If we can imagine an airplane or a tank or a machine gun, or any complicated piece of ordnance, and then suppose that a miraculous and harmless explosion has taken place and this airplane or this tank is just blown to pieces so that every tiniest component part of that instrument is laid out on the floor all around here, then what do we discover? What all of us know, that this very complicated piece of ordnance turns out to be an aggregation of a lot of very simple parts put together in subassemblies and finally more and more complicated assemblies. When you can see the complicated war instrument exploded, you can find innumerable pieces that can be made in the smallest and simplest shops, with the simplest kind of equipment.

At that point, you see, we get the picture of what the small and less well-equipped shops can do, but somebody has to break, explode, those pieces of ordnance down to their component parts.

At that stage, then, it seems to me it is up to either the prime contractor or the War and Navy Departments themselves to say, "Well, now, we see innumerable parts here which can be made by small shops, but they must then take those parts, which is to say the blueprints and specifications, out to the small shops, not as individual small shops but through these community pools which are adequately staffed with engineers."

The man who is going to manufacture this is exactly in the position of Mr. Keller, the president of the Chrysler Corporation. He said, "Let me see the part you want me to make." The moment he looks at it he says, "Yes; I can make that." "No; I can't make that." As soon as he holds the blueprint in his hand or holds the part and sees the specifications, he knows right away; he has to have that much information anyhow in order to calculate his costs. Instead of asking that fellow to bid on this thing, one reason that it is out of the question to ask him to bid has already been touched on by Mr. Bentley; he can't

even get firm quotations on steel and other metal to enable him to put in a price, but the moment he has this blueprint, you see, if he can say, "I don't know how much it would cost me to make this, I can figure it within rough limits, give me a trial order of 100 of these things and after I have tried a few of them, perhaps if you will stand at my elbow and help me a little bit I will work out my costs and I will know exactly what I can do," that, it seems to me, is the idea of the educational order which has been used in the case of the biggest concerns in the country.

When the automotive companies were asked to come in the airplane business they were given so-called educational orders, and that is reasonable. Why isn't it just as reasonable to give the little fellow educational orders so he can get the bugs out of the job and find out what it is going to cost him?

An equally important thing, of course, is that he must be assured—the smaller he is, the more assurance he must have—that materials needed for the job will be supplied to him. That is the British practice, and that is the practice with a good deal of our subcontracting.

If you give out a lot of small orders and rely on the man who is going to manufacture these parts to order his own materials, what you get, of course, is a flood of small raw materials orders in the big mills, which are difficult for them to handle. The priorities become almost unmanageable on that basis. But either in the case of subcontracting or in the case of direct contracting to small manufacturers through these pools, the man who is giving out the order, whether it be the Government procurement office or the prime contractor, should supply the materials, and he can supply them against his own contract with the mills for steel or aluminum or zinc or anything else, and have that charged against him.

On that basis, also, you have simplified the whole procedure because the small man doesn't even pay for the materials; he simply is charged with those materials and the costs, by either the prime contractor or the Government, and his job is merely to pay his labor, look after his overhead, and add whatever profit has been agreed upon for doing that job.

Is that clear?

The CHAIRMAN. Entirely clear.

Mr. WILLIAMS. I think it is a kind of thing which needs to be treated critically. We are dealing with a situation which we think of as ideal. Therefore, you need to approach it and say, "Well, now, that may sound very well as you describe it to us, but we want to be critical about it, and let's see if it would really work in practice."

I think the importance of utilizing the services of the small plants where they are, hardly needs any great emphasis. If we continue to build enormous plants for the special needs of the defense emergency and deprive our smaller plants, first of their skilled labor, secondly, I dare say, of their foremen and superintendents, and ultimately, perhaps, of their machine tools, it is not difficult to visualize what the industrial structure of the country will be after the emergency is over—an intensification of the centralization which already, it seems to me, is far too great for the Nation's welfare.

There are all sorts of other things, of course. It seems to me the construction of these larger plants, which comes about, I think, partly

because we haven't know how to utilize the smaller plants, is almost certain to increase labor difficulty. The setting up of these plants is an invitation to the unions to come in and organize them. In the smaller plants—and I mean by that plants employing anywhere from 25 up to 250 men—you are likely to have much more stable labor relations.

I think, although this may be considered heresy in some quarters, you have a type of management in the small plants that you don't have in the big plants; you have much more flexibility of mind, much more ingenuity in the small plants because they have to learn to do all sorts of things with equipment which wasn't designed for special purposes. The great big organizations tend to become bureaucratic; things are administered by committees, and so forth. So that the assumption that somehow you only get the maximum of efficiency in big plants is, I think, not borne out by the facts at all.

By depriving the small plants, by failing to utilize the facilities in the small plants, we, of course, increase the troubles of the local communities; we shift labor out of places where we have houses and schools and their community facilities, into places which are already congested, and in those places they have to build new schools, extend sewage facilities, build new housing at tremendous cost, and all the rest of it.

FARMING-OUT COMMITTEE SUGGESTED FOR UTILIZATION OF SMALL PLANTS

Mr. WILLIAMS. The final point, then, would be, What type of organization in the defense set-up might perhaps facilitate the bringing into production of the capacity we are not using? My own feeling about that is that something that might be called a farming-out committee would perhaps be the most useful organ for accomplishing that. I visualize a committee made up of some of the ablest industrial and management engineers in the country, men who know shop problems. I should say their job would be to uncover the capacity throughout the country that is not at present being utilized. As I said before, I think it would be no trouble at all to bring these groups of plants together in these local pools, and the pool would be the agency, the association, through which the farming-out committee would contact the unutilized capacity.

I think such a farming-out committee would serve as a service agency for the War and Navy Departments and the Maritime Commission, the last mentioned, of course, in connection with the enormous shipbuilding program. The function of that committee would be to serve as a liaison between these pools all over the country and the three services which do the buying. But, again, I would like to emphasize that unless such a committee, after having uncovered available capacity, would be in position actually to put blueprints or samples and complete specifications into the hands of these pools so that the people out in the plants would actually, as Mr. Keller wanted to do, see what they were asked to make, we would get nowhere with them. In other words, we must simplify the procedure so that the Government goes to plants through these pools and says, "We think this thing can be made for about so and so. Now, figure your costs, and after you have some rough idea of costs, we will sit down with

you and come to an agreement as to what a fair price on this article is, and if your price seems a little high we may limit you to a small order in the beginning until we are satisfied you can make the thing and until you get a better idea what your costs are. From that point on we will feed orders in to you so you can utilize your full capacity." That committee, as I say, serving as a service agency for the War and Navy Departments and the Maritime Commission.

I am a little bit puzzled as to just where such a committee could function best. My own idea is that it should be very close to those departments. I have sometimes thought that the Army and Navy Munitions Board, which we don't hear of very much because, I think, it concerns itself largely with technical problems, might be the best place out of which such a committee would stem.

I think that about covers what I had in mind to submit to the committee, Mr. Chairman.

Senator MEAD. I am very much interested in your suggestion with reference to pooling. Perhaps "Cooperative Associations of Industries" would impart the nature of the organization a little better under the circumstances.

Mr. WILLIAMS. Exactly.

Senator MEAD. But there is no prescribed unit of area in which an association of this character should be formed. That, I presume, is more or less a local matter, having to do with the industrial geography of an area. For instance, you talked about a pool out at Kansas City. I presume that was limited to the industrial area of Kansas City. Then you talked about another pooling association in Lancaster County, wherein the county line was perhaps the limitation there, so that there is no unit of area in which an association of that kind might be organized. I presume, also, it must be a sort of self-starting device, voluntarily put together, with no direction or influence on the part of the Government, so it would be very difficult, in a short period of time, to get the maximum of efficiency from pooling associations, because they wouldn't be thrown together before the emergency was well on its way to completion.

Mr. WILLIAMS. Let me take up the two points in order. I think the area of the pool would be determined by the intensity of industrial development. For example, in Massachusetts there already is a system developed which doesn't quite reach the point of pooling, but which gets many of the benefits of local integration. Now, Massachusetts, a relatively small geographical area but intensively organized industrially, has 36 local areas. Now, apparently, those areas have been constructed with two ideas in mind: One, ease of communication as between plants, because you can see if you are going to utilize the services of a number of plants in a given area, all working together in association, you will be moving materials and parts back and forth as between plants; so a very important question would be the ease of communication, which would be in most cases trucking communication as between your plants. For example, you might devise one pool because it strung along a highway for 50 miles, instead of going back and forth across country roads, because you couldn't reach those plants easily and transportation would be very, very important. A casting might be made in a foundry; you might pick up that casting and transport it 15 miles to have it machined; you might have

one type of machining done in that plant and move it to another plant for finishing, and so forth.

In the Kansas City area where you have to take in a much larger area geographically in order to get a number of plants with sufficient diversification, the area covered by the board might be too large for our purpose, but the area will show the area within which you get the right diversification of plants in order to handle very complicated jobs and the area which is easily administered by a central committee which has to move work from one plant to another.

Out in San Francisco, where I live, we could take in four or five counties around the bay. We have many industrial plants, and those mostly are concentrated around the bay itself. Again, it is a question of how far you would want to move materials, and it probably would be 50 miles, you see.

Tulsa, Oklahoma City, Dallas, Fort Worth in Texas; take the oil country through the Mid-Continent area; there are several oil fields. I had occasion a few months ago, in the Mid-Continent area, to stop in Dallas, and there I was taken down to Corsicana, which is one of the older oil fields of Texas. In that little town there is one good-sized plant which has always specialized in oil-field equipment, and around that plant are clustered a number of small machine shops, just sort of jobbing shops. There you have the beginning of a pool in that one large plant which becomes a sort of mother plant to these small ones. You might extend the area over which that pool would operate to the point where you got the diversification of tools which enabled you to handle fairly complicated business in that area.

The second point about whether these pools should be operated on a voluntary basis, is this: My own feeling is that while you must, of course, rely on a good deal of local initiative and voluntary effort, if the pools are important in defense then they should be recognized as such by the Government, and I see no reason, for example, why the Kansas City pool idea—and I think we shall have a demonstration of it, if it is feasible, within a couple of weeks—if that seems like a good scheme, shouldn't be extended, and I think the agency in the Government responsible for defense production should actually encourage the formation of those pools along fairly standard lines.

There will be plenty of scope for dealing with local problems and giving free play to individual initiative, and so forth, and I would not wait for those pools to come into operation on the basis of local initiative.

Senator MEAD. You would encourage them?

Mr. WILLIAMS. Absolutely.

Senator MEAD. I presume that if we set up some program for the formation of these pools and we had in mind a unit of area, and that unit of area was a unit in which they would all be directly concerned—you had as a suggestion the San Francisco Bay, where every manufacturer was interested in the development of the bay, the transportation provided by the bay, and with other local attributes that made that a natural home for industry.

Mr. WILLIAMS. That is it.

Senator MEAD. That would be the attractiveness, probably, to bring them together and to define the area. But you would run into other conflicts, the conflict, perhaps, of the local organization that is now

there, the manufacturers' association, or the conflict of the large manufacturer as against the small manufacturer, and various other conflicting elements that would prove derogatory to the formation of this ideal cooperative association. I had in mind the manufacturers that settled along the Mohawk Valley. They are all concerned with each other; they have a common tie of transportation and locale, and I can see where such an association would be good not only as a defense provider, but as a permanent protector of the individual small business plants of America.

Mr. WILLIAMS. I think so.

Senator MEAD. For instance, if we could formulate such a suggestion as you have offered in the San Francisco Bay area, or in the Mohawk River area, if we could overcome the present representative set-up that takes care of their public relations and their legislative efforts and their local needs, whether that be a board of trade or manufacturers' association or some other local organization that they have formed themselves, if we could overcome that opposition and probably form an association, requesting each of the industries to make a financial contribution to provide engineering and research and suggestions for better business practices and accounting, strengthening their credit facilities and improving upon their efficiency, it would be a remarkable contribution for the peacetime industrial effort that will follow this defense effort. It probably would cause them to survive, whereas without that association they may find it very difficult to get defense contracts now and to survive after this defense period is over. So I can see that it has potentialities for good. But it must be self-starting; somebody in the community must develop it, unless you have an agency of Government that will encourage it.

Mr. WILLIAMS. The best encouragement, of course, would be to take some orders to them. That is what we might call the organization of demand. We organized supply in these pools, and they came together on the basis of some propaganda which we carried on, and then after we got them organized, I would sit in my office and wait for these boys to come in and say, "This was a fine job you did! We have our pool going and we don't get any business." I finally reached the point where I wanted to duck under the table when any man came in whom we had asked to organize the pool.

The CHAIRMAN. You organized the pools but didn't get any business?

Mr. WILLIAMS. Yes; but if we could start in the War and Navy Departments and the Maritime Commission, parts of engines, all sorts of accessories which they have to put into these boats, if somebody from those departments or an appropriate Government agency went into a place like Albany with a bunch of blue prints and said, "Here are a lot of things which are slowing down the completion of contracts because they are critical items, and it just happens these are not coming through in the requisite quantity to permit the complete assembly," the fellows who have no business, these small plants, will come together; if the chamber of commerce is alive, you simply go to them and say, "I want you to set up a committee representing some of your smaller plants that you know need some business, and make sure it is a competent technical committee, and let those fellows sit down and commence to study blue prints, and out of that function we will develop a pool."

Senator MEAD. But until such time as a functioning agency interested in the formation of those associates, a cooperative, as you talk about, an agency with authority is formed, your contribution along the lines that you have just suggested will be nil.

Mr. WILLIAMS. Absolutely.

Senator MEAD. We have an advisory organization now in O. P. M., but it is only functioning when its advice is sought by these three agencies that you talk about. They don't seek to be advised; therefore the agency doesn't function. So you have presented the committee with a fine idea. These cooperative associations organized in areas that readily lend for such organization will make a fine contribution in wartime or in peacetime. They preserve that basic American ideal of the little industry, a stepping stone for the big industry, but they won't get to first base unless we have a plan and an agency back of that plan to see to it that they are given recognition.

Mr. WILLIAM. An agency which says we have got to have more stuff than we are getting. In the first place, here are things which we need that we are not getting. In the second place, we know that all over this country there are thousands of small and medium-size plants that not only are not working on defense but, because of the sharp impact of priorities, are no longer able to turn out nondefense goods. In other words, this agency of government, while primarily concerned with getting defense articles, must also have a general national welfare point of view in mind. But the moment that agency, whatever it is, is able to go out to the doorsteps of these communities and say, "We have some things we want made," you will find that the other thing will come just because of self-interest and because of recognition of the importance of the emergency. But it must start there. You are quite right, Senator.

Senator MEAD. I believe we are making considerable progress but not enough. The O. P. M. is establishing agencies all over the United States, and I believe the little businessmen along with the big businessmen can find information there with reference to the defense-contracts program. I think that we are breaking up some of these large contracts into smaller contracts, especially where they apply for materials, although there are a great many of them still requiring such a huge amount of materials that they scare away all the little bidders; whereas, if they were divided into smaller units, they wouldn't look too big from the standpoint of the little man, and he would bid on it.

Then this new method of negotiated bidding should be substituted, and probably is being substituted, so that the little man will have an opportunity, and all of the blueprints and engineering helps should be easily accessible to the little man all over the country.

There are many ways in which we are making some progress, but there are many ways in which progress could be made which remain untouched. The directives of the Secretary of War¹ are very helpful in that new machines will not be given priority while other machines are idle in the plants of the country. But your idea of the association of cooperatives encouraged by the Government, under the guidance of some temporary agency—O. P. M. or this farming-out committee that you talk about—I think is a notable development and should be adopted.

¹ See Hearings, Part 5, Exhibits Nos. 68 to 72.

Mr. WILLIAMS. Mr. Chairman, may I make just one point? It is curious how these very important things—you get so used to them in your own mind that you forget them.

The Senator has just touched on the point of the directive of the Secretary of War that no new machines will be provided as long as the work can be done by existing machines. Now, we have authorized very close to a billion dollars of new equipment installation, and I think something like 1,600 plants in different parts of the country on the 5-year amortization basis. In other words, that is privately supplied capital. Now, why should a corporation subcontract its work when the Government says, "Well, go ahead. Increase your own plant. We will permit you to deduct that over the next 5 years"?

The CHAIRMAN. That is what is happening to the little fellow all over the country. He has been put out of business because of that very policy. That is the question now. We are making the big fellow bigger. That is exactly what Mr. Bentley said awhile ago.

Mr. WILLIAMS. Don't forget that the whole matter of materials for people like Mr. Bentley—that problem—is aggravated by the fact that we now have to use up so much of our raw materials for those new machine tools. Of course, we have to increase them.

The CHAIRMAN. I understand that one-sixth of the steel priorities for next year is for new steel construction.

Mr. WILLIAMS. I think that one of the best signs that we are utilizing capacity in this country would be when the machine-tool industry stopped manufacturing new machine tools and itself commenced to manufacture munitions. Now, the machine-tool industry worries and says, "Well, what about these backlogs? We are running out of orders." Well, as soon as you run out of orders making new machine tools you will go into manufacturing munitions.

The CHAIRMAN. Thank you, Mr. Williams. That is all.

Mr. Stettinius.

Will you be sworn, Mr. Stettinius? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth before this committee, so help you God?

TESTIMONY OF EDWARD R. STETTINIUS, JR., DIRECTOR OF PRIORITIES, OFFICE OF PRODUCTION MANAGEMENT

Mr. STETTINIUS. I do.

The CHAIRMAN. Will you give your full name and connections to the reporter, Mr. Stettinius?

Mr. STETTINIUS. Edward R. Stettinius, Jr., Director of Priorities, Office of Production Management.

The CHAIRMAN. Mr. Stettinius, we are very much interested in priorities, particularly as those priorities affect the little manufacturer and the little businessman. We have had a tremendous number of complaints that those people are going out of business because of the fact that the priorities on metals, such as copper, steel, and brass, have been so arranged that they can't get anything to carry on their business with. Mr. Bentley just testified before this committee. He makes machinery for crushing rock in the mines. He makes these big jaw crushers, machinery for carrying on the operations that are primary in getting zinc out of the ground. He is about to be closed up because

he can't get the necessary material to make those jaw crushers. Tell us just exactly what the situation is in regard to priorities in regard to these small businessmen.

Mr. STETTINIUS. Now, Senator, I have prepared a brief statement crystallizing the whole matter. I think, with your permission——

The CHAIRMAN (interposing). Read the statement, and then we will talk to you about it. Go ahead with your statement.

FUNCTIONS OF PRIORITIES DIVISION OF OFFICE OF PRODUCTION MANAGEMENT

Mr. STETTINIUS. As Director of Priorities in charge of the Priorities Division of the Office of Production Management, it is my function to establish and supervise priorities for the purpose of obtaining deliveries of materials and equipment for the fulfillment of contracts and orders placed by the armed services, other Government agencies, foreign governments, and for all other defense requirements.

The priorities system in no way deals with the question of what concerns receive the contracts or orders, but only with expediting deliveries by such concerns, and with obtaining a flow of the necessary materials for the purpose of fulfilling such contracts or orders, after the various procurement agencies determine with what concerns the contracts or orders are to be placed. The placement of contracts is handled entirely by the armed services and Government departments. In the Office of Production Management, the Division of Purchases has the function of approving contracts of the War Department and Navy Department, the Production Division deals with production problems under such contracts and orders, and the Contract Service Section deals with the problem of utilization of business facilities.

In further explanation, the functions of the Priorities Division do not relate to the utilization of small business facilities; it may be appropriate to sketch very briefly the operation of the priorities system.

The Priorities Division assigns preference ratings to defense contracts and orders for the end products required by the Army and Navy and other Government agencies, and by others engaged in defense work, to insure scheduled deliveries of all of the materials and equipment which are required for the production of the end products at each stage of production down to and including the raw materials. In other words, the preference rating system operates from the top down—from the end products down to the lowest raw materials.

Those preference ratings are assigned to individual contracts by the issuance of individual preference rating certificates and the extensions thereof. For these individual certificates, automatic assignment and extension is accomplished for the Army and Navy and other Government contracts by authorizing the officials of the armed services and other agencies to countersign such certificates and their extensions and issue them in the field.

Preference ratings are also assigned in blanket form to entire companies or entire projects, and other large areas when it is determined that such company, or project, or area is entirely taken up with defense work. These blanket ratings substitute one preference rating instrument for the myriads of individual preference rating certificates which would otherwise have to be processed with resulting excessive

administrative and clerical work by the Priorities Division and the field services and in industry.

In addition to the preference-rating system, the Priorities Division operates to take control of raw materials for the purpose of conserving the supply and directing the distribution where such materials become scarce due to the impact of the defense program. It is necessary to exercise this direct control of the use and distribution of raw materials at the bottom of the industrial structure, since the preference-rating system is inadequate to accomplish the necessary degree of control of these scarce materials for defense purposes and the more necessary civilian purposes.

It is apparent from the foregoing brief description of the priorities system that it deals with the deliveries of products and materials and equipment and their direction into the defense program under contracts and orders already placed, and its operation therefore, does not deal with the matter of utilization of business facilities, in defense contracting, large or small.

I understand, sir, that your committee is interested in what machinery exists to deal with shut-downs in industry resulting from priorities actions. Priorities orders curtailing the use of materials for civilian needs have already to some extent, and will to an increasing extent, raise such problems. Dr. Douglas Brown, of Princeton University, consultant, of the Division of Labor of the Office of Production Management, is specifically assigned the task of carefully following these problems. Dr. Brown attends all staff meetings of the Priorities Division and is advised of all such instances of expected curtailment or shut-down, of which the Priorities Division learns or which it anticipates.

I also understand, sir, that you are interested in knowing what advance notice is given to other agencies of the issuance of Priorities orders curtailing the use of materials. All orders which are in preparation are reported to the Priorities Board before issuance; the Board meets weekly and those meetings are attended by representatives of all of the important agencies in the defense program, including representatives of other divisions of the Office of Production Management. As a result, such agencies and other divisions have advance notice of proposed priority actions of this nature and are thereafter able to keep in touch with the progress of each order until the date of its issuance and prepare for such action in their respective fields as they may deem necessary.

The CHAIRMAN. We have been told by various people in various ways that it is the policy of the Priorities Division to set aside total quantities; for instance, if the Bethlehem Steel Corporation has a 3-year contract, that you set aside enough steel for that contract immediately, without taking into consideration that somebody else may need some of that steel for civilian purposes. Is that the policy of the Priorities Division?

Mr. STETTINUS. No, sir; that would only be necessary when that actual steel was needed for processing into ship plates or armor plate or something of the kind. There would be no priority order, blanket order, or otherwise, issued to the Bethlehem Co. whereby they could—

The CHAIRMAN (interposing). I am just using that as an example on account of the fact that they had such a big contract that they

possibly could corner all the steel in the country if it were carried on on that basis.

Mr. STETTINIUS. There is no such policy; no, sir. We ran into one instance sometime ago of a company demanding a large amount of aluminum for the manufacture of furniture to go on a battleship. We found that that furniture wasn't needed until 1944, so we sent that aluminum somewhere else.

The CHAIRMAN. I think that was good sense. Now, tell me what Mr. Brown does after he gets all this information. You say Mr. Brown, in the Labor Division of the Office of Production Management, is specifically assigned to the task of carefully following these problems. After he gets all this information, what does he do with it?

Mr. STETTINIUS. Well, Mr. Brown is Mr. Hillman's deputy, as his priorities specialist, and I don't know in detail, Senator, what Mr. Brown does. I know that he is a very thorough, conscientious person.

The CHAIRMAN. Does he really actually do anything to help these little fellows get some of this stuff that they need to keep from shutting down? We have hundreds of little factories all over this country that are going to shut down on account of priorities. One of them testified before us this morning, and he is making a product absolutely essential to the mining of zinc. He is just one instance. What effort has been made to meet that situation and keep these little fellows operating? That means people out of employment. That means cutting off the zinc supply, which is already short.

Mr. STETTINIUS. That is right.

The CHAIRMAN. What effort is being made to meet that situation?

Mr. STETTINIUS. In the case of the zinc situation, sir—

The CHAIRMAN (interposing). That is just one instance.

Mr. STETTINIUS. If that gentleman should bring his case in to us, he would immediately be given a certificate by me high enough for him to get his equipment or his material to keep in the production of zinc. I mean that is my responsibility to see that he is—

The CHAIRMAN (interposing). He makes machinery that is used in the operation in mining zinc. He is not directly in the zinc-mining business.

Mr. STETTINIUS. All right, sir; that would be a direct defense matter, and the machinery exists for him to be given whatever priority certificate necessary for him to get to manufacture the machinery and get the materials to manufacture the machinery to serve the zinc mines.

The CHAIRMAN. Is any thought being given to the continuation of these little fellows in business by perhaps stretching the priorities a little bit beyond the actual defense needs, where it can be done, so that they can continue in business? What are we going to do with these people?

Mr. STETTINIUS. Senator, as you know, sir, there is a relation between O. P. M. and O. P. A. C. S.

The CHAIRMAN. Yes; I don't know what it is, but I know there must be some relation.

Mr. STETTINIUS. Well, O. P. A. C. S. has jurisdiction over civilian supply.

The CHAIRMAN. I see.

Mr. STETTINIUS. Frankly, I think before the priorities system can function satisfactorily to meet the kind of situation you have in mind, that relationship must be clarified.

The CHAIRMAN. In other words, you have got to have somebody to say yes or no for both of these organizations before you can really get them to function. Is that the truth?

Mr. STETTINIUS. Yes, sir.

Senator MEAD. I was very much interested in a set-up that would keep a record of the effects of priority orders, an agency that would list speedily all of the damage to our industrial set-up that takes place as this wartime program progresses. I am wondering if there is such an agency that is notified immediately of a shut-down of any industry and if there is a record kept of that shut-down and of accumulated shut-downs.

Mr. STETTINIUS. The Division of Research and Statistics of O. P. M.—I think this should be off the record if I could, sir.

The CHAIRMAN. This is off the record.

(Mr. Stettinius made a short off-the-record statement.)

Senator MEAD. And then after we have the information as to the close-down of the industry, whether it is gathered by the Census or your organization through your field representatives—I mean the representatives of O. P. M.—there should immediately follow an investigation of that industry and the economic and social effect in the community.

Mr. STETTINIUS. That is correct, sir.

Senator MEAD. And that should be brought to the attention of the authority in particular charge. I think it should be presented at regular intervals—this decay or deterioration which is setting in—to O. P. M. and to the three big contracting agencies of the Government—the Army, the Navy, and the Maritime Commission. Unless we have a full knowledge of this information and unless we are concerned with its destructive effects, we won't be able to remedy it.

Mr. STETTINIUS. That is correct, sir.

Senator MEAD. So it seems to me it is just as important to have someone to find out what those priorities really do, what effect they have, as it is to have someone to issue priorities.

Mr. STETTINIUS. Correct, sir, and our Bureau of Research and Statistics are organizing to have available all the answers to any of the questions that might be raised in that respect. That is something we have anticipated and arranged for.

Senator MEAD. Within a very short period of time, we can assume, perhaps the furniture industries of Grand Rapids, Mich.; Jamestown, N. Y.; and Rocky Mount, N. C., will close down, and they will immediately bring that matter to the attention of their representatives in the Congress, and they will be joined by industries all over the United States in other nondefense categories. Suddenly a huge problem will present itself to the lawmaking body of the Nation, and they will immediately want to find out what O. P. M. has done about it, what the War and the Navy Departments have done, and what responsibilities rest with these agencies in the development of this uneconomic deterioration. So it seems to me that you would be well fortified and O. P. M. would be well fortified if they had an instant report of the ill effects of priority orders, if they made a study of the effect and recommended remedies for those effects, because the time is close at hand when I think we are going to hit this crisis head on.

Mr. STETTINIUS. Yes, sir.

Senator MEAD. And we have so reduced W. P. A. and other relief agencies that we find, in this spotty economy of ours, poverty in one community and no relief and prosperity in another community and a shortage of labor.

Mr. STETTINIUS. That is right, but, Senator Mead, I think it should be thoroughly recognized by Senator Truman and yourself that our relationship with O. P. A. C. S., insofar as the civilian life of the Nation is concerned, we are charged with the responsibility of the flow of materials for defense; Leon Henderson is charged with the responsibility of the allocation of materials for civilian supply.

The CHAIRMAN. We are going to have him tell us about it tomorrow.

Mr. STETTINIUS. I see.

Senator MEAD. I think that both of you men and others are doing a patriotic work, but I think that it is your responsibility and mine, as well as everyone else concerned with this task, to see to it that when we run into this emergency, we run into it with all the knowledge that can be gained, with all the remedies that can be put forth, and it looks as though we are going to run into it.

Mr. STETTINIUS. That is entirely correct, sir.

Senator MEAD. We want to prepare for it. I hope, therefore, that as diligently as possible, your agency plead for the cooperation of the other agencies that have to do with this problem, recommending remedies such as the spreading of defense orders, recommending remedies that will probably provide adequate materials in some categories that will keep these nonessential or nondefense industries in operation, at least to a degree that will keep their organizations going.

Mr. STETTINIUS. Right.

Senator MEAD. And prevent prostration of industry in a given community.

Mr. STETTINIUS. I agree entirely, Senator Mead.

Senator MEAD. I haven't anything more.

Mr. FULTON. Mr. Stettinius, did I understand that your Division relates only to priorities and that you do not, as such, consider the effects on production of the smaller businesses, that being a function of the Production Division?

Mr. STETTINIUS. We consider it, Mr. Fulton, in issuing the priority orders, wherever possible, but, as I said, our responsibility relates primarily to the flow of materials for the defense contract, so that once the contract is let by the Army, Navy, or the Maritime Commission, and cleared by the Production and Procurement of O. P. M., it then becomes our responsibility to see that the materials flow in order that that item or items may be manufactured. So I really feel that the concern should be given for the placing of the contract before it reaches. Of course, we are very careful not to do anything in priorities procedure to hurt small business in any way. Even recently we have been putting in some of our orders with reference to the fact that where a very small amount of material is required, those very tiny, small, insignificant amounts of material could flow to a small business without going through the red tape of priorities procedure; such, we will say, as 200 pounds of copper, for example, for a little fellow who has a shop of 10 men, trying to simplify the system. But before the matter gets to us, the contractor has been selected, you see.

Mr. FULTON. But the question of replacing business lost by reason of shortages of materials is what, I take it, would be one for the Production Division rather than the Priorities.

Mr. STETTINIUS. Yes.

Mr. FULTON. Is there any correlation between the two?

Mr. STETTINIUS. Oh, yes.

Mr. FULTON. Is there any organized effort between the two divisions?

Mr. STETTINIUS. Very, very close. We have a close liaison relationship. Mr. Biggers is a member of the Priorities Board, and he attends the Priorities Board meetings and is very thoroughly familiar with the entire priorities procedure as Mr. Donald Nelson and I, in turn, are with their procedure. There is a very, very close liaison relationship between the three divisions.

Mr. FULTON. Is there any study made by which you could tell us what the result of this is in terms of already existing nonemployment of small organized businesses which have lost materials?

Mr. STETTINIUS. The basic data isn't at hand, Mr. Fulton. We have been terribly handicapped because of lack of personnel and lack of space.

Mr. FULTON. For example, copper is one of the short materials. Can you tell us the types of businesses that need copper that are not now getting it?

Mr. STETTINIUS. Yes.

Mr. FULTON. What are some of those companies, for example?

Mr. STETTINIUS. The automobile industry have been asked to reduce copper; the radio industry, electrical refrigeration, general electrical household apparatus, all have been asked, and in some instances have been denied. It has not been possible to allow the flow of copper to the building industry in as large quantities as before.

Mr. FULTON. For example, if we shut off the copper that goes to hardware manufacture, what kind of steps are taken, so far as you know them, to see to it that he is given some other business, if there is any that he can do.

Mr. STETTINIUS. Well, before any priority action is taken, Mr. Fulton, of course, the industry is consulted. All representatives of the industry—big, small, or medium-sized companies—are represented, and all those matters are threshed out with the industry before action is taken.

Mr. FULTON. I mean does that mean that your Division discusses with that industry the business that it can do and substitutes?

Mr. STETTINIUS. And the effects of the proposed priority action. For example, when we discuss with the copper industry, the construction man might speak up and say he isn't going to be able to fill copper orders for defense housing where copper is essential. That has to be taken into account. Every possible shading and color of the matter is considered during the drafting of the priority order.

Mr. FULTON. But I meant the question of trying to substitute for him some other business. Is that, too, considered?

Mr. STETTINIUS. No; that will be referred to us by, say, through the Priority Board procedure. Mr. Nelson is really the one chiefly concerned in that. He is notified and goes on record as early as possible of the action proposed and the effect of that action.

Mr. FULTON. Yes. Well, he is Director of Purchases.

Mr. STETTINIUS. That is right.

Mr. FULTON. What I was talking about was how this particular manufacturer who would no longer be able to get copper, say, to make hardware, would be given any consideration as to giving him another contract to make something he can make and keep his plant open.

Mr. STETTINIUS. Donald Nelson is the liaison officer between O. P. M. and the Army and the Navy on the placing of their contracts. He would advise the Army and the Navy of such an operator who was going to have to shut down because of lack of copper.

Mr. FULTON. So you do make lists of the companies that will have to shut down?

Mr. STETTINIUS. Yes, sir; that is part of the system.

Mr. FULTON. The prediction has been made by Mr. Browning, formerly, I think, connected with the O. P. M., that within a few months there would be at least 5,000 establishments that would shut down for lack of materials. Would you consider that a fair statement?

Mr. STETTINIUS. Within how many months?

Mr. FULTON. Within a very few months.

Mr. STETTINIUS. Well, Mr. Fulton, I think that is speculating.

Mr. FULTON. I think he said 6 months.

Mr. STETTINIUS. Off the record, if we have the bottoms to move the copper—500 tons of Chile copper—and if our domestic production comes in, we aren't going to have any great crisis in copper in the next few months. If we don't have the bottoms to bring in that copper, we will have a crisis in 90 days. You can relate this whole thing back to bottoms—any item of these materials that you discuss with me. If it is steel, you have to talk manganese, and manganese has to come across the water. If you talk of aluminum, the bauxite has to come from British and Dutch Guiana.

I would say, though, as a general thing, the way the situation looks to us now, that because of the shortage of minerals and metals many, many industries are going to have to either find new business, develop substitutes, or close down.

Mr. FULTON. We have already, as I understood you, had a number of them that, by reason of materials, are shut down, and I wondered if you are following those. How many have already shut down?

Mr. STETTINIUS. We have that information, Mr. Fulton.

Mr. FULTON. Would it run into hundreds or thousands, or what?

Mr. STETTINIUS. I would say in the hundreds. Of course, many of those are very small. I am not even sure of that. I can have that made available, and the kind of commodities.

Mr. FULTON. And then, with respect to the Under Secretary of War's statement that we are at present proceeding at about 15 percent of capacity¹—that is, 15 percent of our production is being made available for defense, and with the expectancy that we all have of increasing that to 25 or 30 more percent—wouldn't that have an increasing effect on these shortages?

Mr. STETTINIUS. Yes; definitely so, sir.

Mr. FULTON. And where we have hundreds now it would be thousands and perhaps tens of thousands of plants at a later date?

Mr. STETTINIUS. Possibly, depending upon the shortages and the duration of the effort.

¹ See *supra*, p. 1516.

Mr. FULTON. And as I understood you, you thought there should be a coordination or a clarification. I believe you said, between O. P. A. C. S. and the O. P. M. as to just who has what functions in this connection?

Mr. STETTINIUS. Particularly in the field of indirect defense—us on defense, Mr. Henderson on civilian supply. If a power plant breaks down out in St. Louis, is that defense or is that civilian supply?

The CHAIRMAN. You have got to have somebody to say yes or no on that. Isn't that correct?

Mr. STETTINIUS. Yes.

The CHAIRMAN. Can't the President do that?

Mr. STETTINIUS. I think so. I am sure he will.

Mr. FULTON. In that connection you mean that you need something more than a liaison man. You need one method of determining just whose problem it is, and then that person to determine the fact as to how it is to be handled.

Mr. STETTINIUS. Well, I think you need a very clear definition of defense, a clear definition of civilian supply, and a clear definition of indirect defense.

Mr. FULTON. Does that mean that in the absence of those definitions, and even with this liaison organization that you have spoken of, where various people at least keep track of what is going on, we haven't any present means of solving this particular problem?

Mr. STETTINIUS. Oh, no; we are getting at the problem. It is being dealt with.

Mr. FULTON. You mean, then, that we may expect lesser numbers of these companies to be short of materials?

Mr. STETTINIUS. Well, Mr. Fulton, it entirely depends upon the duration, as to the effect of the sinkings, and the appropriations ahead. I don't think anyone could really forecast with any degree of accuracy the effect on these hundreds and tens of thousands of small companies, because it depends on some varying factors.

I can see a tremendous readjustment to our whole civilian supply, and many of these companies will have just to turn to a new effort, because they won't have the nickel and the zinc and the copper and these metals to manufacture.

Mr. FULTON. Even if we don't have increased sinkings, won't the increased percentage of the total American production used for defense automatically make these problems more acute than they are today?

Mr. STETTINIUS. They will be more acute than they are today.

Mr. FULTON. So that if it is necessary to have priorities today, it will be increasingly necessary to have even more severe ones, then, whether we have more sinkings or not.

Mr. STETTINIUS. That is right.

Mr. FULTON. And it would be almost certain that many of these establishments would have to stop business, would it not?

Mr. STETTINIUS. Or find substitutes.

Mr. FULTON. How could they find substitutes?

Mr. STETTINIUS. Oh, very well. They are doing it constantly. The automobile business has engineered 60 percent of the nickel out of their forthcoming models. They have engineered all of their aluminum out.

Mr. FULTON. In some cases you can have a complete substitution, but I understood, even with respect to aluminum which they can get along without, that it meant they had to have new machine tools and new dies and designs, which caused a further drain which the hard-pressed industry had to supply.

Mr. STETTINIUS. I am a great believer in the ingenuity and resourcefulness of the American industrial laboratory. If we have to make an ice box with a plastic door, we can do it, and we don't have to have aluminum or rubber trays in that ice box, either. We can have some other material.

Mr. FULTON. But if we are not quite capable of setting up an all-seeing plan in the beginning, doesn't it make that plan all the more difficult when we begin to have substitutions?

Mr. STETTINIUS. Surely.

Mr. FULTON. In other words, the plan gets more difficult as we go along.

Mr. STETTINIUS. Surely. It is bound to.

Mr. FULTON. Do we have an organization today that can really cope with that kind of problem?

Mr. STETTINIUS. That is as to the planning?

Mr. FULTON. Yes; to plan the detailed changes that will have to take place where you have a hundred thousand different establishments changing their relationships with each other and with their suppliers of materials and with their customers by reason of shortages and substitutions priorities. That seems to be almost something which God Almighty might have difficulty with.

Mr. STETTINIUS. That is out of my field, but my impressions are that Mr. Leon Henderson is building up a very large staff of competent people to study these very matters as they affect the civilian economy. Certainly Mr. Biggers and his organization are building up a very fine and adequate staff as far as the defense industries of the country are concerned.

The CHAIRMAN. We appreciate that, Mr. Stettinius. Thank you very much.

Senator MEAD. Mr. Stettinius, if I may make a suggestion, hang out a sign and tell them that you will give no more priorities for machines or equipment unless they can prove that the work cannot be done by subcontracting, and then we will spread this about as far as we can.

Mr. STETTINIUS. Thank you, Senator.

The CHAIRMAN. Mr. Biggers.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth before this committee, so help you God?

TESTIMONY OF JOHN D. BIGGERS, DIRECTOR, PRODUCTION DIVISION, OFFICE OF PRODUCTION MANAGEMENT

Mr. BIGGERS. I do.

The CHAIRMAN. I owe you an apology, sir. I expected to put you on at a quarter to 12 o'clock, and, as usual, our committee got behind with this work, and here we are. I hope it won't inconvenience you too much.

Mr. BIGGERS. I know that those things are not always controllable.

NEED FOR PROTECTION OF SMALL BUSINESS THROUGH SUBCONTRACTING OR
POOLING

The CHAIRMAN. Mr. Biggers, you have heard some of the testimony since you have been here. We are particularly interested in the welfare of the small businessman and the small manufacturer. I understand that your organization has set up a farming-out committee. We are particularly interested in what that farming-out committee is doing practically and how much of it is really being done. If you have any prepared statement that you want to make to this committee along the lines of the questions which we sent you, we would be very pleased to have it now.

Mr. BIGGERS. Well, Mr. Chairman, I did not bring a prepared statement because I thought you wanted me to answer your questions and give you the information that you were seeking. I made a few notes as I listened to your questioning of other witnesses, and I think perhaps I can answer a few of the questions that were asked others, because they more specifically concern my responsibilities, so if I may start there—

The CHAIRMAN. Proceed.

Mr. BIGGERS. In the first place, this problem of spreading the opportunity and the load of defense work has been a prime concern of the civilian defense organization right from the very start. In the days of the Defense Commission, we were quickly conscious of the fact that the pressure of urgency led the military services in a logical way to place contracts with the sources that they knew, the sources that were proven and experienced. That seemed logical from their standpoint and from the standpoint of getting what you wanted and getting it quickly. But it was evident that that was leading to dangerous concentrations, so we started in, and the first effort was what was called the small business organization. That was organized under Mr. Donald Nelson, and considerable progress was made in splitting up contracts for the products that are closely akin to items of civilian production, such as uniforms and beds and refrigerators and items of that kind—blankets. They can be subdivided rather easily so that a number of companies can participate in the bid and participate in the award.

But it became evident that the real, basic problem was in these specialized items of defense which are highly technical, and that the problem was, therefore, more one of subcontracting than of subdivision of prime contracts. After the organization of O. P. M., that responsibility was therefore assigned to our Division, Production and we took their personnel, their organization, and converted it into what is known as the Defense Contract Service, which is a good deal more than a committee. We now have 395 people, trained personnel—a few in the headquarters here in Washington, most of them in the 36 district offices scattered throughout the United States—and these people are rendering an increasingly valuable service to the military organizations and to the small contractor who is trying to find a place for himself and his facilities and his labor in this program.

You must realize that the process of subcontracting goes on as a normal factor in any business of this kind. The Army-Navy Munitions Board figures, from their records, that approximately 18,000

prime contracts have been awarded and that they have resulted in 366,000 subcontracts.

The CHAIRMAN. The difficulty of that situation, though, is that the prime contractor in most of these contracts is guaranteed his profit; that is, he is safe, he knows he is safe. Then he proceeds to let these subcontracts on bids. Under ordinary peacetime situations, contracts on bids are best from the public standpoint, but under these present conditions we have been letting the contracts on a cost-plus basis. Yet the subcontractor has been at a disadvantage of having to bid on these in competition with his other people, and in most cases prices have not been protected in any way, and he has usually bid himself out of business instead of bidding himself a contract. What we are particularly interested in is what is being done to keep that little fellow from going out of business? What is being done to keep the big fellow from getting bigger, still keeping the little fellow in business so that he will be there to work after this thing is over?

Mr. BIGGERS. I was just coming to that point, sir, and I will try to develop it, if I may.

The CHAIRMAN. I would appreciate it if you would.

Mr. BIGGERS. The problem is very much as you state it. These people don't bid themselves out of business in the majority of cases by a long way. They have that problem—

The CHAIRMAN. But they don't get the contract because they can't get the materials without the prices going up.

Mr. BIGGERS. They have the problem of bidding for their place in the opportunity, their place in the defense program, and it is a difficult one.

Now, as I say, there has been a normal evolution there, but this field organization has done a great deal in its short life to acquaint—I won't say the subcontractor—the small company with the items that the Government requires and with the specifications and prints pertaining to them and the possibility of figuring on this or that. They have brought a great many of those people into direct relationship and an increasing number into subcontractual relationship. There were in the month of June alone \$38,401,000 of contracts negotiated in these district offices between parties that hadn't been able to find their place through the normal processes of direct contact with the military services or with the prime contractor.

Now, the question of helping those people, those smaller companies, to become prime contractors capable of giving to the military services the guarantees that they require of speed and of quality is a very difficult one.

The CHAIRMAN. Has any effort been made to utilize this pooling proposition that Mr. Williams was talking about awhile ago?

Mr. BIGGERS. As Senator Mead said, in most of those cases the Army and Navy insist, with some justification, upon a responsible bidder or responsible leadership, and I think that it can be found in a cooperative way between a group of this kind. There is one small group in the Shenandoah Valley, and there is one more important situation recently worked out in the Springfield, Mass., area, where a group of contractors banded together to exchange information as to their facilities and figured out what part they could take in a certain operation or a certain contract. Then, in the case of the Massachusetts instance, one

of those companies took the contract and the contractual responsibility to the Government so they could look to one man and hold him responsible, and the other people allied with him for the completion of the job, apparently to their mutual satisfaction.

Mr. Knudsen feels very strongly, and I think we all agree, as Senator Mead said in speaking of the Mohawk Valley, you have got to have leadership, and you can find leadership. In every community there is some leadership.

The CHAIRMAN. I think that the leadership would appear if the opportunity were given to these people to have cause for leadership. Unless they get some business, there is no reason for their going on.

Mr. BIGGERS. Well, sir, I would say that in large measure, the effort has to come from them to the Government, as well as from the Government to them. The people with initiative and energy and vision have worked out, or will work out, their own salvation. We have to help others, but we can't help them unless they try to help themselves.

The CHAIRMAN. It may be too late to save them after they are all broke and gone out of business and after we have collected their machine tools in industrial centers in the hands of these big fellows.

Mr. BIGGERS. I am just sure it is not going to any such point as that. For example, we had this problem of industries facing a shut-down by reason of lack of materials, the one you were speaking to Mr. Stettinius about, and you asked about the activities of Professor Brown and the committee working with him. That is a comparatively recent study because this problem has become acute very recently.

The CHAIRMAN. It surely has. If you should see my correspondence, you would think that every little businessman in the country is going out of business.

Mr. BIGGERS. Professor Brown has associated with him competent and practical men from other divisions of the O. P. M., who are working out a series of recommendations very much along the lines that you indicated, to try and find ways of getting at least educational orders or work opportunities to some of these small companies and some of these small groups, whether you call them pools or whether you call them associations or what not.

The CHAIRMAN. It doesn't make any difference what the name is. The thing is to get the job done and keep these little fellows operating.

Mr. BIGGERS. We had a really acute problem in Manitowoc, Wis., where companies were shut down there by reason of the stoppage of the flow of aluminum to kitchen-utensil manufacturers. We sent a representative group to Manitowoc, because it was a test problem, in a sense. We had Dr. Brown; we had a man from the ordnance district in Chicago, a captain; we had a commander from the Chicago naval office; we had Mr. Chapman, the head of our Small Arms and Ammunition Section in O. P. M., former vice president of manufacturing in the Chrysler organization and a competent engineer; and two or three other men go out there and meet with the local manufacturers and meet with their labor and try and figure out what could be done—what could be found for their facilities and their skills to make.

The CHAIRMAN. Now you are on the right track. That is exactly what we are contending for. If you carry that to its logical conclusion, you are going to accomplish just what we are trying to get done.

Mr. BIGGERS. Well, we are on that job, and I must say it is not an easy one. I will take that position.

The CHAIRMAN. None of these jobs is easy. This defense job isn't easy. None of us have easy jobs. I have had many a job I like better than the one I have now.

Mr. BIGGERS. I have had several, too. But at this particular place, there is a shipyard going up to build submarines at Manitowoc, and it is going to employ 2,000 people. There are somewhere near 4,000 that will be laid off in these aluminumware plants. The labor people insist, with some justification, and the shipbuilder coincides, that there is very little possibility of adapting that one type of labor to the other type of job, because many of the workers in the aluminumware plants were women, and many of them were people of middle or advanced age. They just can't quickly adapt themselves to the problems of shipbuilding. So, you are moving into that town one type of labor for shipbuilding, and you have the problem of finding an opportunity for the others. And it is very difficult to find an opportunity for their equipment, because you don't need stamping and pressing equipment to make the articles of war or defense in any large quantities. You need machining operations, and there is a wealth of unused stamping equipment in the United States today. There is a very great problem to help those people, whether they be completely shut down by the effect of a priority or whether they be shut down to a small residue of former volume by the curtailment of the automobile industry or the curtailment of something else. They all have a common problem, and they have a very difficult problem of adaptation, both of machinery and of skills, and the whole group is at work on that within the O. P. M., concertedly. We require the maximum of cooperation from the military services because, as has been expressed by others, so long as the United States gives new machine tools, ideal equipment, for the setting up of an ideal manufacturing plant to make a given article of armament, just so long will it be difficult to get that manufacturer or some other manufacturer to spread the load and give the opportunity to the small shop, because it is clear that you can make these armament items better and quicker and cheaper by concentration in an ideally equipped plant with competent management.

But that isn't the whole story. We feel, as you do, that we have to look beyond this emergency to avoid the maladjustments of population, to avoid pulling people into centers, to avoid building new houses for people one place when they have homes elsewhere, and our determination is to do everything in our power to take the work to the man and to the machine rather than to take the man to some centralized, newly created factory. But we must have the greatest cooperation from the military services, and in my judgment, they must come to decline to give new tools to any proposed defense manufacturer until he has demonstrated to their satisfaction and our satisfaction his inability to use his existing facilities or to spread the load.

We had a case of one manufacturer of a 20-millimeter cannon. This was the Hispano-Suisa 20-millimeter gun, and the military authorities had figured an appropriation of \$5,250,000 for an addition to plant and equipment to make it. With their cooperation, when we and this manufacturer got through with that job, he arranged to make only three difficult parts in his own plant and to assemble the job and inspect it there, and he subcontracted elsewhere 118 out of 121 parts

and no new building was necessary at all under those conditions. And it tremendously reduced the machine-tool investment of the Government.

The CHAIRMAN. I think you are on the right track with that. If you will just refuse these fellows appropriations to get new plants and new machine tools until they have exhausted all the machine tools in the country, I don't think we will need to spend one-sixth of our steel next year for new construction.

Mr. BIGGERS. I don't think so, either. It isn't entirely within the control of O. P. M., but we are getting an increased comprehension of the problem.

The CHAIRMAN. Under whose control is it?

Mr. BIGGERS. It is under the control of the military authorities who place the contracts.

The CHAIRMAN. We can take care of them. The Congress can control them if it is absolutely necessary, if they can't see the light. We want to centralize this control and find out just exactly where the responsibility is, Mr. Biggers. See if you can't remedy this situation, and if you can't do it, we will.

Mr. BIGGERS. I think we are getting, through experience and through education and through mutual confidence, an increased cooperation from the military authorities. It was human nature, it was the normal procedure to do just exactly what they did at the outset, but they see that that is no longer desirable and that it is no longer possible.

Senator MEAD. Mr. Biggers, a thought occurred to me just a moment ago when you said that it was the military authorities that exerted the authority. Isn't it Mr. Stettinius who issues the priorities when new machines and new equipment are required?

Mr. BIGGERS. But Mr. Stettinius issues priorities in conformity with the requests of the military authorities.

Senator MEAD. If a given plant is interested in expansion and requires added machinery and added equipment, he issues the priority for it?

Mr. BIGGERS. Yes; but the military authorities, through the Army and Navy Munitions Board, the joint Board, determine the rating of all military items and machine tools. The machine tools for a given manufacturer might be A1-A if for a bomber, or A1-B if for something else, or an A1-C or G if for tanks. The relative urgency of different items is determined by the military.

Senator MEAD. So that in all cases Mr. Stettinius doesn't have the say, insofar as priorities are concerned.

Mr. BIGGERS. I would say that on military items the determination of precedence and urgency is determined by the military. He issues priorities in accordance with that determination, administers and expedites, administers and polices. I don't know whether Mr. Stettinius is still here.

Senator MEAD. No, he isn't. Well, anyway, it was not the intention of the Congress to avoid subcontracting when the appropriations were passed. They let it be known that they wanted the best materials, but at the same time they emphasized the necessity for speed. Speed meant that if you couldn't have it done by the prime contractor you would spread the work and let the subcontractor come in. So that Congress

really wanted the subcontractors to participate in this program. Do you think the same is true of the O. P. M.?

Mr. BIGGERS. Yes, sir.

Senator MEAD. Is there any truth in, we will say, the rumor that in certain O. P. M. quarters they were opposed to making the little contractors bigger and encouraging them?

Mr. BIGGERS. Not to my knowledge. I have never known anything that gave me that impression, and I don't believe that is the desire; I believe the military authorities are in accord with the general purposes that you state, and they deviate from it only because of what they believe to be efficiency and expediency, but I think, given a cooperative approach to this, we can prove in most cases that adequate quality of product and time of delivery can be given through a subcontracting process, because you save some of the time that would otherwise have been expended on the creation of new facilities and the purchase of machine tools, though you may have more time involved and more trouble involved in the manufacturing operation.

Senator MEAD. We had O. P. M. representatives here before the committee, and really before this subcontracting problem became as serious as it is, and, even though some great big firms had a wealth of contracts, a backlog that would take them until 1943 or 1944 to complete, they were adding to that backlog by giving them additional contracts. I can remember in the aluminum testimony when it was well developed that the Aluminum Co. of America had a tremendous backlog, and the O. P. M. representative said, "We approved that for the Aluminum Co. of America," and when we asked why, he said, "Well, the Aluminum Co. was a going company, it was a responsible company, and it was our job to get the contract off the desk or approved, and so we did it, and it is done."¹ There wasn't any thought of speed or of subcontracting in that instance. It was just a case of fattening the load for the one big existing company. So it occurred to me, at least, that there was in that particular instance no desire to build up to make small business any bigger.

Mr. BIGGERS. I don't know of that particular statement or testimony, but I would say, Senator Mead, that in the question of acquiring aluminum it has been a question of expanding the facilities, building new plants where power was available, and building them where the management could provide assured operating plants with the greatest degree of speed, and a maximum effort has been made to develop new people to come into that industry. There was in America a concentration of knowledge in the possession of one company at the outset of this emergency, and it made it very difficult to find any other companies that were able to undertake the building of an aluminum plant, or some of the complicated fabricating plants, with assurance of success. Nevertheless, it has been done.

Senator MEAD. I think we are making good progress now along the lines of developing, of producing aluminum. The last few weeks have given encouragement to the committee and to the country. But you said a moment ago that a certain number of prime contracts were issued—I forget the number, perhaps it was 18,000.

¹ See testimony of Grenville R. Holden, Hearings, Part 3, p. 835 et seq.

Mr. BIGGERS. Eighteen thousand.

Senator MEAD. And that was subdivided into 360,000?

Mr. BIGGERS. The Army and Navy Munitions Board on their check—I don't know whether it was a numerical check or cross section test check—estimate that that resulted in 366,000 subcontracts. A subcontract is a flexible term. Some people use "subcontract" very broadly in terms of purchasing equipment and supplies and materials. Technically, that isn't a subcontract. Those people are suppliers. A subcontractor, in my definition, is one who can be qualified and employed to do an operation, to perform an operation, which you would normally have done in your own shop, and the supervision of that type of subcontracting is actually more difficult than doing the job in your own shop, and that is why the manufacturer, if given any encouragement by the military authorities, gravitates toward expanding his own facilities and controlling the operation rather than diversifying it and having to control the production of the subcontractor.

Senator MEAD. I believe that a definition of the subcontractor ought to be contained in each contract, because merely saying that 18,000 contracts were eventually subdivided into 360,000 contracts doesn't give us the real picture, because the big industrial firms like Bethlehem Steel or General Electric may subcontract with divisions of the industry, affiliates of the industry, or subsidiaries of the industry, and yet all those contracts would be within the Bethlehem or the General Electric set-up, and therefore if a definition of a subcontract were written into the contract, it would really go to a subcontractor and not remain within the one big industrial corporation. I think the time has come when we would not only require some degree of subcontracting, when we not only give a bonus for a degree of subcontracting, but when we actually define what a subcontractor really is.

Mr. BIGGERS. I think that is a good point. If the Bethlehem Steel Corporation subdivides an order amongst its own subsidiaries—

Senator MEAD (interposing). They don't subcontract.

Mr. BIGGERS. It may relieve the United States of the purchase of new equipment, but it doesn't distribute the business to small companies.

Senator MEAD. That is right. We might be able to renegotiate all existing contracts where delivery is not immediately at hand, and in the renegotiation require a certain percentage of subcontracts, require that the subcontracts be let on the balance of the contract. We might consider giving a bonus for the speedy delivery of such a contract so as to encourage it, and we might define, in the renegotiated contract, what a subcontractor really is, so that not only with reference to the future contracts but with reference to the pending and already negotiated contracts, we might by a revision of them all spread this work out more quickly.

Mr. BIGGERS. The Army's and Navy's objection to that probably would be on the grounds of retarding the speed of placement, but I don't wholly agree with that. However, they were directed by the President to place, during the month of June, contracts for all of the appropriations which they had in hand and unplaced. They did so. It was an excellent job of distribution, but it didn't give the opportunity for the type of studies that you now refer to. But there is plenty ahead, and I think those technical things should be applied.

Senator MEAD. I wouldn't recommend that contracts be renegotiated that are almost completed. I would determine that that would only apply to contracts where a small percentage of the work is already completed, but it occurs to me that it is much more beneficial to national defense to bring the work, the contract, to the men and the machines than to bring the men and the machines to the work.

Mr. BIGGERS. I agree that that should be done to a maximum practicable extent, and the only limitation is the fact——

The CHAIRMAN (interposing). If you don't do that we are going to have about a hundred billion dollars to expend on relief after this thing is over, and I don't know where we will get that much money.

Mr. BIGGERS. I don't either, sir. I would like to leave with your committee, if I may, in order not to take up your time in submitting exhibits, or to leave with Mr. Fulton or whoever he designates, a chart here that shows how subcontracting has been done by one particular firm in Waterbury, Conn., with six main suppliers, and then how they have acquired individual items from different sources.

The CHAIRMAN. We would be glad to have that.

Mr. BIGGERS. The particular items and the value of the items give a sort of detailed break-down of subcontracting in one specific instance. And I would like to give you, if I may, this map showing the distribution of these offices.

The CHAIRMAN. We would like to have them.

(The chart and map referred to were marked "Exhibits Nos. 87 and 88" and are included in the appendix on p. 1878 and facing p. 1878.)

Mr. FULTON. I noted that you said that one of the objections which you thought the services would have to wider subcontracting or a larger number of prime contracts would be that it would retard the speed of placing; by that you mean it would retard the speed by which you could get things on order, that is, make contracts to buy.

Mr. BIGGERS. That is correct, sir.

Mr. FULTON. But that, of course, wouldn't necessarily have anything to do with the only really important objective, which would be the speed with which we get the finished article. That is exactly my contention in talking to the services.

Mr. BIGGERS. It doesn't make any difference if you spend 3 more weeks in placing the contract if you save time in delivery. That is the whole point—when you get the stuff delivered.

Mr. FULTON. I noticed you made the point that even though you might have a contract with a company to procure an article that you might have to have a considerable amount of delay ensue before that company could build a plant, put in the machinery, get together the supervision skill and labor, iron out the troubles that it would have in production, and finally get into production.

Mr. BIGGERS. That is true, but in most cases, unfortunately, it is true that making these very special items of defense or war is so different from the civilian products of our Nation that a very considerable time is involved in any company's transforming its present tools and facilities to make the new article, even if no new facilities are built. You see what I mean?

Mr. FULTON. But if you divide them up in the instance that you had of 121 different parts, 118 of which could be purchased from existing companies, it certainly is clear that a great many of those parts could be in production much sooner.

Mr. BIGGERS. I think so. In that case it was true.

Mr. FULTON. Than if you built the plant.

Mr. BIGGERS. Yes, sir.

Mr. FULTON. Although, of course, you couldn't make your contract and say you had them on order as quickly.

Mr. BIGGERS. Well, in that case, they made the contract with the prime contractor who took the responsibility of subdivision and assembly and the manufacture of the crucial parts, so the contracting operation was not seriously delayed and the actual result was expedited.

Mr. FULTON. And there wasn't even a delay in the placement of orders?

Mr. BIGGERS. Not appreciable.

Mr. FULTON. Which was the thing that you said they were particularly interested in.

Mr. BIGGERS. Not in that particular case. In other cases there would be more delay because in that case it was more an internal distribution of load by one of the big companies, such as Senator Mead referred to a moment ago.

Mr. FULTON. Are we, in spite of the fact that we have some orders placed, actually in production on nearly all the important defense articles today?

Mr. BIGGERS. Yes, sir.

Mr. FULTON. And by that I mean real production and not just a few articles that have rolled off. We are ready to go?

Mr. BIGGERS. We are at the beginning of real mass production in most all critical items.

Mr. FULTON. And I wondered if you had had any experts who were trying to ascertain the extent to which effect had been given to the principle that you enunciated, of preventing the use of new machine tools and the building of new plants where they had existing plants or existing tools that would do the job.

Mr. BIGGERS. Yes; we have in our Production Division very highly qualified men drawn from many businesses and many walks of life in the different subdivisions, working with the armed services. For instance, in Ordnance, we have an Ordnance Section which is subdivided into an explosives unit dealing with powder and TNT and other components, and another on small arms and ammunition, and another on optical goods and fire control, and another one on heavy ordnance, and another one on tanks. Each one of those subdivisions—there are approximately 85 or 90 men in that organization as a whole—is made up of practical people drawn from various experiences. For example, in charge of that branch we have Mr. E. F. Johnson, who had retired from business at an early age, but who formerly built the old Hickory Powder Plant in the World War and had extensive experience in ordnance and similar items in a broad manufacturing experience with du Pont and General Motors. As his assistant we have Mr. Bell, of the Edgewater Steel Co., of Pittsburgh, who had been head of the Pittsburgh Ordnance District, and an ordnance expert for many years, a civilian. And then in charge of one of the branches, a vice president of Westinghouse who is a specialist; another a manufacturing vice president of Plymouth, and so on. Those men are competent and do, to the best of their ability, study these various problems and try to advise with the military services what can be done to distribute a

contract rather than concentrate it, and will do so if they are given adequate time and opportunity—I mean if they are consulted in time to make the study.

MR. FULTON. Unless the Army or the Navy has succeeded in following that objective to perfection, which I take it you would not assume as so, there would be many cases, or at least some cases, in which they had failed to accomplish the objective. Does your organization find out those cases?

MR. BIGGERS. We haven't spent very much time going back over things that were closed because of the multitude of things to be done; the volume of things to be placed today and tomorrow is such that we are working on them rather than something that was closed last week contrary to our recommendation or judgment as to the best way to do it. In the main we haven't spent very much time on that.

MR. FULTON. What I meant was this. The Under Secretary of War has a directive which, as I understand it, says that there must not be any authorization of new machine tools without a due study of the possibility of doing the work elsewhere.¹ Now, in all cases is such a study made, and if it is made and completed, if it is a thorough study, it wouldn't matter whether it was completed before or after, but do you find that there is no such study, or do you find that all such studies are made?

MR. BIGGERS. Those studies are made in the best and most practicable way under the pressure of time. If you realize that something in excess of or approximately \$10,000,000,000 of contracts were rushed out in a period of about 30 days, you can't make a study on every one of those with the meticulous thoroughness that you or I might wish.

MR. FULTON. Can you make a study at all thorough?

MR. BIGGERS. You can on the outstanding things, but you can't do it on all.

MR. FULTON. So that there are many things as to which there was no such study made at the time.

MR. BIGGERS. Not a completely adequate study.

MR. FULTON. If it isn't adequate, would it be very valuable?

MR. BIGGERS. Well, it all depends on what you call a study. These men by and large are so experienced that they can, in their particular fields, make specific recommendations as to the practicability of doing something that might take me or you or someone else days of personal research. Out of their experience they can make quicker recommendations than I could in many of those fields, because they are specialists.

MR. FULTON. Are they sufficiently able to tell whether there is an existing plant which could do that without actually going down into the records and looking to see what plants there are and what the businesses of those plants are?

MR. BIGGERS. In many cases, but not in all cases, and they work with and through the defense contract service and its field agencies to the extent that is permitted by time.

MR. FULTON. Does the defense contract service have any experts at all at its disposal for the purpose of examining contracts to see whether it could have found small companies that could do those contracts?

MR. BIGGERS. Yes. In their field organization, as I mentioned, they have 122 technically trained and qualified engineers, for one thing, that are just on that sort of work.

¹ See Hearings, Part 5, Exhibit No. 68, appendix p. 1473.

Mr. FULTON. I am surprised at that, because Mr. Mehornay testified that he didn't think he had an organization that could check up, and, in fact, I think he said he didn't have authority to check up on a contract unless he was asked.¹

Mr. BIGGERS. Well, Mr. Mehornay, if I remember, testified before your committee nearly 2 months ago,¹ and a good deal has happened since then, both in the upbuilding of his organization and in improvement.

The CHAIRMAN. Has he been given more authority on this small-contract business than he had when he was here before? According to his testimony before this committee, he didn't have authority to do anything. He might as well not be there.

Mr. BIGGERS. He has developed a competent field organization, and he has had strong backing within O. P. M., and much more cooperation from the military services than he had 2 months ago.

The CHAIRMAN. I am glad to hear that.

Mr. FULTON. Does he have authority to take up the question of one of these contracts of the type that you mentioned that weren't studied adequately because of lack of time?

Mr. BIGGERS. He would have authority; yes, sir.

Mr. FULTON. To do that irrespective of the fact that nobody asked him?

Mr. BIGGERS. Yes, sir.

Mr. FULTON. And to put an expert organization on that particular job and determine whether in fact there had been other companies which could have done the work with existing facilities?

Mr. BIGGERS. Yes, sir; he would have the authority to do that.

Mr. FULTON. When he found that and made that determination, what authority would he have to do something about it?

Mr. BIGGERS. Well, he wouldn't have very much power to do anything if the contract had already been signed by the United States Government and awarded to some other company and machine tools had been allocated to them.

Mr. FULTON. What authority would he have to take it up with the other departments of your division for the purpose of your ascertaining whether these men who didn't originally discover that are, in fact, the persons who should continue to be in that capacity?

Mr. BIGGERS. There is no limitation on his right to dig into any of those situations or to develop or expose any facts he may find.

Mr. FULTON. Has he brought any such facts to your attention?

Mr. BIGGERS. I would say, again, that there have been situations where we thought that subcontracting could be employed to a larger degree than the military authorities thought, and their determination is based upon urgency in so many cases, and, just as Senator Mead said awhile ago, our prerogative is largely advisory, but we don't wait to be asked for opinions; we advance opinions. We would have, through Mr. Nelson, a veto power. We would have the right to refuse to approve a contract if we thought it was fundamentally wrong. But in a minor difference of judgment as to method of procedure, that right is seldom exercised.

Mr. FULTON. I take it the military, particularly the Army, would be governed by the Under Secretary's directive to the effect that it must not be done without due study.

¹ See Hearings, Part. 5, pp. 1373 and 1379.

Mr. BIGGERS. It is all a question of what is due study.

Mr. FULTON. Yes, very much so. Now, as I understood you, there are cases where, by reason of urgency, there was not sufficient time to make due study.

Mr. BIGGERS. That is true.

Mr. FULTON. There will be other cases, unless we have perfection, where I assume that due study might not have been made because of inefficiency or carelessness or perhaps even the desire not to make it.

Mr. BIGGERS. I don't believe the latter.

Mr. FULTON. I wanted to know whether any studies have been made by Mr. Mehornay's division which have been brought to your attention, showing situations where there could have been subcontracting, because you say he has the experts now, and he has the authority to do it.

Mr. BIGGERS. But he and his people are so busy in the field meeting with prime contractors and subcontractors and trying to help them on the problems of today and tomorrow that it is my judgment, without making a specific examination, that they haven't spent much time on analysis of something that happened a week or a month ago.

Mr. FULTON. Although it is also your judgment that in many of those cases it wasn't possible to make the due study.

Mr. BIGGERS. That in a number of those cases the time element prevented as thorough a study as you or I would have liked to have made.

Mr. FULTON. Isn't it desirable that some organization be set up somewhere with some experts to do just precisely that, to check on these procurement officers and on the men in O. P. M. to see whether they have, in fact, followed out the directives which you and the Under Secretary of War have given?

Mr. BIGGERS. If it be the wish of the Congress or of the executive authorities, we can organize to make such a check, or an outsider can do it to doublecheck it.

Mr. FULTON. It wouldn't be your wish? Because without a check you don't know which way you are going. You do know that there are cases where there isn't due study, and I assume you want to know what the reasons for that are.

Mr. BIGGERS. I would like to know the reasons for a lot of things, but when you are moving at the speed that we are moving in this country in order to try and accomplish the defense of our country against an unknown and indefinable danger, you can't stop to do everything the way you would like to do it.

Mr. FULTON. But this situation is one where——

Mr. BIGGERS (interposing). It is vital.

Mr. FULTON. I understood you to say that speed might better be accomplished in some of these cases by subcontracting instead of by giving big contracts to companies that would have to build new plants.

Mr. BIGGERS. Yes; I would rather spend my energy and our organization's energy on improving the working relationship with the military services and improving the study of the situations ahead rather than assign an organization to a study of water that is over the dam. But if somebody else want to do that, that is their privilege.

Mr. FULTON. Is it over the dam if they still have new contracts to let next month?

Mr. BIGGERS. That is what I say. That is what I would rather work on, the new contracts, and try and establish these procedures upon which we both agree.

Mr. FULTON. In doing that, in order to work on those new contracts, don't you have to know whether your organization is efficient or not, and isn't the best way to find that out to check once or twice and find out whether they were efficient in fact?

Mr. BIGGERS. We have other ways. We have a good many other ways of judging the efficiency of any organization, but if that be a method that you gentlemen prefer, that is your prerogative, of course.

Mr. FULTON. Would you tell me the other ways that you have of ascertaining definitely that we are getting as much subcontracting as we can have? What better way is there than to look back and see what we have done and make a test check here and there?

Mr. BIGGERS. I have no objection to making test checks at all, but you have a problem of such magnitude here that you have to invoke the processes of decentralization, you have to choose in the military services and in other branches of the Government the best people you can get to administer detailed jobs and assign responsibility and authority and directions to them, and your results are going to depend upon the competence of that organization, in my opinion, more than on belated methods of double-checking, but I don't have any objections to that check.

Mr. FULTON. How are you going to ascertain the competence of that organization unless you check up on what they are doing? I was interested to know how you would do that.

Mr. BIGGERS. There are so many ways. When you are in touch with a situation from day to day, and in touch with the personnel and the problems, and you know the way this situation has been handled and the way that has been handled and the improvement that you can make on that situation next week, you have a generally accurate impression of the picture.

Mr. FULTON. You can't possibly, can you, be familiar with all these?

Mr. BIGGERS. I don't claim to be, but I claim that the very essence of the thing is to get enough competent people in critical positions so that they will do the best possible, conscientious, and honest, practical job.

Mr. FULTON. Competence is a matter of degree and differs with every individual.

Mr. BIGGERS. Yes, sir; and checking is a matter of opinion largely.

Mr. FULTON. And most of these people haven't previously been doing these particular tasks, so that it would be necessary to check up now and then and at least have some organization to find out whether they are doing it right.

Mr. BIGGERS. I could have a checking organization and go over a contract that was placed 2 weeks ago by the Navy, we will say, and I could develop my ideas or my associates' ideas of how that could have been done differently, and in my opinion more advantageously from the standpoint of the economy. They would argue the competence of the contractor and the certainty of delivery against the experimental character of my recommendation, and you would be in a prolonged discussion as to which was right and which was best.

Mr. FULTON. I thought you would be the one to determine that, because the purpose would be for your determination whether they should continue in that particular office, wouldn't it?

Mr. BIGGERS. We haven't any such authority as you appear to think we have under the wording of the Under Secretary of War's directive.

Mr. FULTON. If the O. P. M. were of the opinion that there had not been due study by the O. P. M. Advisory Board and that there had not been due study of the War Department procurement officers, wouldn't you have authority in the first place to change your advisers and get somebody in O. P. M. that you did think would make due study?

Mr. BIGGERS. Yes, sir.

Mr. FULTON. And, in the second place, to report to the Under Secretary of War that that particular procurement officer had, in your opinion, not done a very good job in following out his directive?

Mr. BIGGERS. Yes, sir.

Mr. FULTON. But you don't do either of those things.

Mr. BIGGERS. We do it in many different ways, but we haven't set up a specific checking organization to make that type of post-fact study.

Mr. FULTON. Have you reported a single procurement officer of either the Army or Navy for failing to make a sufficient study of the facilities that were in existence?

Mr. BIGGERS. In our cooperative study of this problem and discussion of the problem we have reported specifically and repeatedly to the authorities in the War and Navy Departments on the general problem and on specific instances where we didn't think adequate effort was made. We didn't make the report in the nature of a charge against an individual, because these get down to matters of honest differences of judgment as to the way to do things.

Mr. FULTON. But there are cases where you might go beyond that, aren't there? Have you made any test studies of any of those? Have you found such a case?

Mr. BIGGERS. Where they went beyond what —matters of judgment?

Mr. FULTON. Beyond matters of judgment, or it might be a matter of inefficiency or just not doing the work rather than an honest difference of opinion or judgment.

Mr. BIGGERS. We are in a field here where the argument for urgency is such a controlling factor that it is a hard one to meet sometimes. When I say that I think this small group of manufacturers can be assembled and that we can find some leadership and they can take an order for something they have never made in the world, and that they can distribute it amongst them and somebody will take the responsibility and somebody will take the guidance of that, and that they will do it as well or as cheaply as the Ford Motor Co., you are arguing in a difficult field to prove; and I argue in that field considerably, but it is not a mathematical problem with a conclusive answer.

Mr. FULTON. I take it, then, you haven't found any case where you would be willing to say there was inefficiency as distinct from a difference of judgment?

Mr. BIGGERS. No; I really wouldn't say that.

Mr. FULTON. So we have achieved in this effort perfection, at least from the standpoint of avoiding inefficiency of procurement officers?

Mr. BIGGERS. I wouldn't say that we have achieved anything approaching perfection, but I would say that they have achieved a very high measure of success under a tremendously difficult job of stepping up their problem of procurement, their responsibilities, by not hundreds of percent but by thousands of percent.

Mr. FULTON. But you haven't found any soft spots?

Mr. BIGGERS. Sure; you find people that are less competent than others in any organization.

Mr. FULTON. And what do you do about those?

Mr. BIGGERS. In our own organization that is controllable; we change them. In the military organization it is a matter of expression of opinion, and we haven't filed complaints or charges for the dismissal of any individual.

The CHAIRMAN. Mr. Biggers, we are very much interested in this small-business situation, in the contracts for small business, and in the saving of the small man for future use after this emergency is over.

Mr. BIGGERS. So am I.

The CHAIRMAN. We hope that you will continue your efforts.

The witnesses for tomorrow at 10:30 will be Mr. Leon Henderson, Mr. Marriner S. Eccles, and Albert Browning, on the same subject.

(Whereupon, at 1:07 p. m., an adjournment was taken until 10:30 a. m., Wednesday, July 23, 1941.)

INVESTIGATION OF NATIONAL DEFENSE PROGRAM

WEDNESDAY, JULY 23, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING
THE NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Tuesday, July 22, 1941, in room 318, Senate Office Building, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman, chairman; James M. Mead; Tom Connally; and Carl Hatch.

Present also: Hugh A. Fulton, chief counsel; E. L. Smead, Chief, Division of Bank Operations; and Lawrence Clayton, assistant to the Chairman, Federal Reserve System.

The CHAIRMAN. The committee will come to order, please.

Mr. Browning, will you please rise and be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BROWNING. I do.

TESTIMONY OF ALBERT J. BROWNING, PRESIDENT, UNITED WALL PAPER FACTORIES, INC., CHICAGO

The CHAIRMAN. Will you give your name and connection to the reporter?

Mr. BROWNING. Albert J. Browning, president of the United Wall Paper Factories, Chicago.

The CHAIRMAN. You have been connected with O. P. M. until recently, haven't you, Mr. Browning?

Mr. BROWNING. I was; yes.

The CHAIRMAN. We have been questioning witnesses in the last day or two on priorities and the allocation of basic metals, and things of that sort, to small manufacturers, in an effort to keep those small manufacturers in business after this emergency is over. I understand that you are in the wallpaper business.

Mr. BROWNING. That is correct.

The CHAIRMAN. The manufacturing business; that you are somewhat familiar with the manufacturing game from the ground up; and that you have had considerable experience on O. P. M. I would like to have your views on the subjects which we have had under discussion, and if you have a remedy, tell us about it.

Mr. BROWNING. I prepared a short statement here that might form a basis of starting the discussion.

The CHAIRMAN. Proceed with it.

EFFECT OF NATIONAL DEFENSE PROGRAM ON SMALL NONDEFENSE BUSINESSES
AND REMEDIAL SUGGESTIONS OFFERED

Mr. BROWNING. During an emergency like this, our first consideration is, and should be, to make very sure that we win this war. In order to do this, it is necessary that nothing stand in the way of attaining this vital objective.

However, in accomplishing this goal it will be a great tragedy if, in so doing, we create a condition whereby we completely dislocate a large part of American industry when this could be largely avoided.

We are headed toward financial ruin for large numbers of American businesses and industries, a great deal of unemployment in a time of labor scarcity, and a failure to use to advantage the productive facilities of this country.

So far this has been a very comfortable war. Retail trade is booming, pay rolls are mounting, and manufacturers, who are running only 20 to 30 percent ahead of last year, feel embarrassed by such small gains. It is not where we are that is as serious as where we are headed, and I am amazed at how little realization exists as to what is ahead of us.

So far, our expenditures for defense since the beginning of this program have not yet reached a rate of \$1,000,000,000 a month. Before 6 months have passed, this may be nearly \$2,000,000,000 per month, and by a year from now I feel sure that we shall be producing at the rate of \$3,000,000,000 per month. We must at least equal that if we are to win this war.

We cannot produce that quantity of war materials without creating definite shortages of large quantities of essential materials, shortages of transportation, power, and labor.

The CHAIRMAN. What did you say we are producing now per month?

Mr. BROWNING. A little under \$1,000,000,000 a month.

The CHAIRMAN. And how much will we have to produce in order to meet the situation?

Mr. BROWNING. At least 3,000,000,000.

The CHAIRMAN. At least three times what we are doing?

Mr. BROWNING. That is correct. We can't produce that quantity of war materials without creating definite shortages.

Now, what does this mean to the manufacturer of nondefense items? It means that as a result of the buying policy that has been followed by the Army and Navy and the present handling of the allocation of materials, large numbers of civilian industries will be forced out of business.

We are only one-fourth of the way into the defense program, and let's see what has happened so far.

Many manufacturers are already closed down, are greatly curtailed in their operations, or they soon may be: Outboard motor manufacturers, aluminum-utensil manufacturers, kitchenware and cutlery manufacturers, metal bathroom-fixture producers, oil burner, stoker, refrigerator, washing machine, and domestic heating manufacturers, sporting-goods companies, radio and automotive-accessory manufacturers, and so on.

It has been estimated that thousands of nondefense plants will be closed down or critically restricted in their operations by the end of this year.

There is very little appreciation of the far-reaching effect of some of the priorities that have been set up. In many cases a few dollars' worth of a critical item will completely stop production on hundreds of dollars' worth of merchandise.

Now, what should be done about this situation? There are three important steps to be taken.

1. The Army should change its buying practices. On June 30 a directive was issued by Under Secretary of War Patterson, which when fully in operation will permit many manufacturers not now engaged in defense work to use part of their facilities and organizations for arms production.

There has been a great deal of criticism of the fact that during the first year the Army placed a large part of its orders with the larger manufacturing companies. Although it might have been better for the country as a whole if this work had been spread out more, yet the pressure of getting production under way as rapidly as possible and the limited number of experienced personnel made it necessary that the first large group of orders be placed with those manufacturers best equipped to get into production.

Under Secretary Patterson and the chiefs of departments realize the desirability of spreading the defense buying as far as possible, and the directive issued by the Under Secretary should accomplish this end.

Much of the War Department buying, particularly in the Quartermaster Department, was done in such a way as to spread the business as far as possible. On most of the invitations to bid, a maximum quantity that would be given to any one concern was specified.

2. A change must be made in the method of issuing priorities so that consideration can be given to the needs of civilian industries. The official in charge of this work should have the final authority for the allocation of critical items to the armed services, to civilian industries, and to individual manufacturers. In this way those producers of nondefense items who need small quantities of critical materials in order to continue production will be able to secure them.

3. The production of critical items should be expanded. A great deal of work has been done on this from the angle of increasing facilities. However, during the depression many restrictions on production were instituted in order to spread the work and give more workers employment. A review of labor contracts in critical material and other industries will quickly show that production can be stepped up very greatly without injury to labor by the removal of unnecessary restrictions.

That might form a basis for discussion.

The CHAIRMAN. I notice you say that one of the principal difficulties is the allocation of priorities to manufacturers of civilian necessities. It seems to me a most difficult matter to decide just exactly what is a civilian necessity and what is absolutely essential for national

defense. In the first place, we are setting up this national-defense program to save the civilian set-up. If we are going to throw the civilian set-up in the creek and have nothing but national defense left, we are going to wind up as a military dictatorship, and that is not what any of us want. We are trying to save the democratic form. What I want to know is: How can we remedy the set-up as it now is so that the small manufacturer and the fellow who is making things for civilian use, such as wallpaper, is going to come out of this with a whole skin when we get through?

Mr. BROWNING. The aluminum housewares manufacturer, for instance, is just out of luck because he uses 100 percent aluminum, and in that case the quantity of critical material that he uses to his total production is so great that it is probably impossible to avoid severely hurting him.

The CHAIRMAN. That is true; that is a special instance, though.

Mr. BROWNING. However, in most instances it is a small quantity of this critical material that means whether or not the industry operates. For instance, last night I talked to two manufacturers of irons, ordinary home-heating appliances. In those irons, in order to make them operate satisfactorily, they have a little disk, a part of which is nickel. I just asked them what part that was to the total, and they figured it was one eight-hundredth of 1 percent of the material that went into the iron that was nickel. They can't make a really satisfactory iron without some nickel. If we cut the nickel off from them entirely, then they have to make a more or less unsatisfactory product or stop making it; so they should have available the small amount of nickel necessary to do the job.

They also use in the elements what is known as a nicrome wire. That is a nickel and chromium combination. The quantity of material that goes into that wire is very small. At the same time, unless they have nicrome wire they cannot have a satisfactory element to go into the iron. A set-up needs to be made whereby concerns of that kind, using small quantities of critical materials, can get them.

The difference between the quantities that those industries would use and the total quantity is not going to make the difference as to whether our defense program is successful or not.

The CHAIRMAN. It is the fellow who needs a little bit of these necessities who needs to be looked over because he has been totally cut off, hasn't he?

Mr. BROWNING. Yes, sir.

The CHAIRMAN. I understand that there are priorities under consideration by the Priorities Committee that have just been piling up and piling up and no action whatever has been taken on them, and those fellows don't know whether they are going to be taken care of with priorities or whether to go out of business. What is the remedy for that?

Mr. BROWNING. I think that can be done rather simply. We probably need an allocator of materials—I might call it that—who can sit down and say there is available, we will say, 800,000 tons of aluminum, or how much is available, and we are going to give the Army and Navy 750,000 tons and keep 50,000 tons for civilians. Now, you could quickly use up that 50,000 tons in pistons in automobiles or in aluminum kitchenware, and that would be a tremendous waste of

that quantity. But if that were allocated through industry in the critical spots where the amount used was a small percentage of the total, then it would work very simply. I think that this department, or office, or whatever it is, should make the final decision as to what percentage of the available material is going to go to the War Department and the Navy, and what percentage is going to be available for civilians.

The CHAIRMAN. Is there unanimity of opinion in the O. P. M. as to how this matter ought to be handled?

Mr. BROWNING. I know nothing about what the O. P. M.'s present opinion is.

The CHAIRMAN. What was the situation when you were there?

Mr. BROWNING. I had very little contact with the priorities department. I was in purchases.

The CHAIRMAN. I understand there is not a unanimity of opinion in the O. P. M. itself as to how this ought to be handled, that there is some controversy and argument as to what is the best thing to do so far as the civilian end of the population is concerned.

Mr. BROWNING. Let's assume that on nickel, aluminum, or any one of the critical items, after a careful study by a disinterested party—by that I mean somebody who can see both the civilian side and the Army side—it should be decided that 80 percent of the material was to go to the Army and 20 percent to go to civilians. Then, let's say, probably Mr. Henderson's department would be given the 20 percent to assign to the civilian industry, because I understand he is basically interested in civilian supply. In that way it would be divided up and we wouldn't be at cross purposes the way we are today. Each Army procurement officer is basically interested in seeing that he gets the material that he is responsible for securing.

The CHAIRMAN. That is true.

Mr. BROWNING. So naturally he doesn't work any closer to his lower limits than he has to. He tries to get his group of manufacturers to have on order, or on hand, as much of the critical materials as he can. The Navy wants its share, or a little bit more, if it can get it, with the result that the poor civilian industry is left on the outside and we don't know whether there is plenty of the material or not. It might be a difference of just a very few percent as to whether there was sufficient to take care of the necessity or whether there was a real shortage, and there is a big question in the minds of the businessmen I have talked to around the country whether there is actually a shortage of most of these critical items. They feel that stockpiles are being built up both in the manufacturing plants, and generally, that are unnecessary, and that the minute you say "priority," you immediately create a shortage by the very mention of the word, because everybody grabs everything he can get his hands on and hides it under the cellar steps and says, "Well, I am going to protect myself."

Mr. FULTON. As I understand you, your position is that by increasing the defense load to the point that is contemplated, say several billion dollars a month, there is necessarily going to be a shortage of materials. Is that correct?

Mr. BROWNING. That is correct.

Mr. FULTON. And that shortage could be in part taken care of by increasing production.

Mr. BROWNING. That is right.

Mr. FULTON. And in part taken care of by substituting for civilian contracts, defense contracts.

Mr. BROWNING. That is right.

Mr. FULTON. In other words, give the people who are now doing civilian work, defense work, and they necessarily will use less materials for civilian use.

Mr. BROWNING. That is right.

Mr. FULTON. But there is still a situation where you can't even, by increasing production and by shifting contracts, get enough materials, and you have to have priorities of some kind.

Mr. BROWNING. That is right. Then you come to the question of what is the most important. Are we going to have 200,000 men out of work in the aluminum industry or in the outboard-motor industry, or something else, to provide that last increment for the Army and Navy, or just what is our attitude to be? I don't think any businessman wants to see the defense program hampered in any way. By the same token, he doesn't want to see his business destroyed and his people thrown out of work, because there is hoarding of some of these materials or unnecessary usage of them by both the Army and the Navy. Every businessman today is finding substitutes. It is surprising how many substitutes you can find, but there are many items you can't find substitutes for. Perhaps a little pressure on the Army and the Navy and they might find a few substitutes, too, for some of the material they are using.

Senator CONNALLY. Doesn't it necessarily follow if more men are diverted to the production of war materials, defense materials, more factories, that inevitably there has got to be a shortage in civilian production?

Mr. BROWNING. That is correct.

Senator CONNALLY. Well, you can't expect civilian manufacturers to go on getting all the supplies they formerly got and turn out all the stuff they formerly turned out, so somebody has to cut down.

Mr. BROWNING. That is right.

Senator CONNALLY. And it will have to be the civilian, won't it? It will have to be the civilian consumers.

Mr. BROWNING. Yes; within certain limits.

Senator CONNALLY. What limits? Here is the national defense, and we may get into a war, and all that. What is more important than that? That should some of us ride around in new joy cars when we could use the old one? Is that it?

Mr. BROWNING. No.

Senator CONNALLY. What is the limit?

Mr. BROWNING. In the case of automobiles, the automobile plants are ideally set up to move into defense work very quickly without hurting the employees or the manufacturers or anyone else; some other industries are not. Say it comes to a matter of taking each one as a unit and taking the general principle. Part of those people can be taken care of by spreading the defense work. In other words, I am more concerned about the people who are working in these plants than I am about the consumer. The consumer can get along with what he got along with before, or less, but when you have a town that has only one factory in it, and that factory is making a product on which the

machinery and equipment and men aren't easily transferable to defense work, then, if it is possible, we should continue that plant in operation making civilian goods. There have to be some civilian goods made. My point is that we should take all three channels to open the thing up as far as possible and create the least amount of injury to the workers and the civilians.

Mr. FULTON. I understood that you did some work with the O. P. M., the Quartermaster Corps that brought you at least into some familiarity with priorities and how they are set up. Can you tell us how priorities are ordinarily set up, what kind of studies underlie them?

Mr. BROWNING. We had very little contact with priorities because we got together with the manufacturers and with the procurement officer before we sent out an invitation to bid, and we planned our buying so that it fitted in between there without creating the tight bottleneck that may happen unless you do a good planning job on buying. We had practically no priorities. We had no contact with them.

Mr. FULTON. Your buying is pretty much a buying job, the type that the mail order companies do?

Mr. BROWNING. Clothing, textiles, shoes, and items of that kind.

Mr. FULTON. And you tried to spread it over a period of time similar to theirs?

Mr. BROWNING. That is right.

Mr. FULTON. What I meant on priorities was, Are the priorities being fixed from the standpoint of the military defense, are they fixed from the standpoint of civilians, or, so far as you know, which organizations have what authority in that field?

Mr. BROWNING. The impression I get from talking to manufacturers around the country is that no one quite knows how many priorities are out, or for what. The Army has been issuing priorities, the Navy has been issuing priorities, the O. P. M. has been issuing priorities, and the businessman doesn't know how many priorities are out, and what the real situation is. I don't know whether anyone else knows that to date.

Mr. FULTON. The problem you were posing when you suggested a remedy was to have one group or one man or organization determine first the quantity that would be allocated to military defense needs, and, second, the quantity that was to be allocated to civilian needs, and then allow the man below him in charge of military needs to set the priorities for those industries, and the one in charge of civilian needs to set the priorities for those.

Mr. BROWNING. That is right.

Mr. FULTON. Could you expand somewhat on that so as to tell us how that might be worked out or be made workable?

Mr. BROWNING. It looks a little complicated at first, but let's assume that we have 200,000 pounds of nickel available for civilian industries. Then, without coming to Washington, a man could send in an affidavit stating the quantity of materials that he makes a year. Let's say it is electric irons, and the amount of total man-hours of labor, if you will go into that, the total value of the product, the quantity of this critical material that he needs, and what that means to the total; and then say, "Well, all right, you are making 200,000 irons a year, and you are employing 1,000 people, and you need 5,000 pounds of nickel to do

that. All right, we will draw that out of this pool we have of nickel reserve for civilian industries and allocate that to that manufacturer," and so on through the industry.

Today a manufacturer comes to Washington; there is no directive posted in the station down here that tells him where to go; he comes down here, and he is short this item and he starts to go around and call on everybody he can find. Maybe he gets somewhere and maybe he doesn't, and it is very confusing to him.

Senator MEAD. Mr. Chairman, if I may, I believe that an agency with proper power or authority is lacking in this defense set-up under present conditions, and if we are going to spread out this program and really give some of this work to subcontractors, we will have to have an agency here clothed with sufficient power to do the job. Doesn't that occur to you to be the prime need at present?

Mr. BROWNING. Well, it is very evident, and I think everyone realizes, or almost everyone, that we do need a supreme directive authority in the defense program that can tie all this together. The O. P. M. is looked upon, to a large extent, as having authority. I don't think they have much authority when it comes right down to it.

The CHAIRMAN. What they have is very decidedly divided, isn't it?

Mr. BROWNING. That is right.

Senator MEAD. The set-up in the O. P. M. for the purposes of spreading the contracts from the big, prime contractors to the smaller contractors, is actually without power, as I understand it. It is my notion, if I interpret the proclamation that created this authority correctly, that they can only act when the departments involved, including O. P. M., invite them to act and to give them some advice; in other words, they can only step into the picture when they are asked to do so by some other agency.

Mr. BROWNING. Well, this question of subcontracts, I think, is probably the greatest overrated idea that we have. The theory that you can feed these prime contracts into a limited number of contractors and then depend on them to subcontract only works within very small limits. For example, I was talking to one manufacturer who makes metal chairs, aluminum and steel metal chairs made out of tubing. He employs around 600 men. He wanted, by reason of losing his aluminum tubing, to get into defense work. He was told to get a subcontract, so he approached some prime contractors to get a subcontract. One of the prime contractors was very happy to take him on. He said, "We need tubing, and we will give you a contract that will fill your tubing department." This man has, I think he told me, 32 men in his tubing department. The rest of the plant is entirely out of business if he loses his tubing department, so if he subcontracts his tubing department out to a prime contractor, then the rest of his plant and his 568 people are out of work and can't do anything in the rest of the plant. That is one of the things that happens with subcontracting. The prime contractor takes the easy thing to do and picks out one set of machinery in some subcontractor's plant that completely puts that man out of the possibility of doing any other work. So the theory that you can subcontract only has very limited application.

Senator MEAD. In the illustration that you give the committee, it seems to me the subcontractor had the task of going around looking for a contractor that would use his shop. The point I make is that we

ought to have some agency, some authority here in Washington, that would encourage subcontracting. If I remember rightly, this committee was told that Mr. Mehornay's division of O. P. M., that has to do with subcontracts can only interfere when they are asked for advice, and they have only been asked for advice on \$18,000,000 worth of work out of billions of dollars' worth of contracts. You are not going to get any place in spreading this defense program with an authority of that particular type.

The job that we are up against is this: The operation of priorities, which is one function of the Government, is constantly closing down plants and interfering with the operations of communities. They are hurting the communities, while another agency that has to do with subcontracting can't even begin to catch up with the work of spreading the contracts so that that community might eventually enjoy some of this defense business that the country generally is enjoying. Now, it occurs to me that the only answer to the curtailment of industries resulting from priorities is to rapidly spread the contracts so that subcontractors will have some benefit of this defense program. That requires, in my judgment, a real agency here with authority, and it requires more than that. The small plant isn't readily available, as you explained awhile ago; it might have a representative who would find his way to Washington, and arriving here, he would look around for some assistance as to just where to go.

Mr. CONNALLY. Look around for some Senator, you mean.

Senator MEAD. He probably would come into some Senator's office, and it seems to me that this agency that should be set up with authority ought to be able to furnish him with information, with engineering services if necessary; they ought to be able to aid him in securing credit, financial credit. For instance, if he was allowed to participate in a job that, we will say, was worth \$100,000, which was a big one for him, and he had to wait 6, 8, or 10 months for his money, he just couldn't take the job. And then, again, this authority should see to it that when bids are asked on materials, they do not ask for a billion dollars' worth of material; they ought to break it down so that it wouldn't look too large for the little fellow to bite on. It occurs to me, also, that our O. P. M. offices throughout the United States ought to have plenty of information, engineering information and other information, on all the materials and all the bids in which we are concerned, so that the little fellow can go there and get plenty of information, plenty of advice, plenty of direction. But the bottleneck of it all is that we haven't got an agency here in Washington with capacity and power really to spread the national-defense program so that the little fellow will get his share of it, and until we get that agency, we can just talk about it but we won't do anything about it.

Mr. BROWNING. Do you want me to comment on that?

Senator MEAD. You may.

Mr. BROWNING. Frankly, I don't think such an agency can ever be of any great value in this program that we are working on, because in order to function they have got to know as much about the item, its requirements, and what goes into it, as the contracting officer that is buying it. If we could double the number of contracting officers instead of setting up a dual agency, and then those contracting officers very definitely wanted to accomplish this point, they could do a great

deal more when they let that contract than some outside agency could trying to work along with them. I think the basic thing is to get back to the procurement officer of the Army, and if he follows his directive that the Under Secretary has issued, that in itself will greatly spread the work.

Would you be interested in hearing that directive, which I think is the most important thing that has been done all through the program, which does instruct these officers to do these very things?

Senator MEAD. The Under Secretary of War, Mr. Patterson,¹ explained his directive to us at a previous sitting of the committee.

Mr. BROWNING. That was an earlier directive, I understand.

Senator MEAD. Probably it was, but one weakness in that is that you define a subcontractor and then subcontracts might be let to the Bethlehem Steel and the General Electric and they have affiliates and subsidiaries and divisions and other agencies within their own set-up, so they don't really sublet the contracts; they just pass them on to another division within the one big set-up. So, it occurs to me the directive is all right and is a step in the right direction and it is accumulating some good, making some progress, but still we need a division, in my judgment, in O. P. M., or some set-up with a little more authority than the present division has. It is just an advisory function now.

Mr. BROWNING. Well, having worked with the Procurement Division of the Army, it becomes very confusing when there is some other agency trying to parallel the work that you are doing. If the agency itself that is doing the buying does the right kind of a planning job when they issue their invitations to bid, that in itself will help spread this work. We saw that operate very effectively in the Quartermaster Corps, wherein if we were going, for instance, to buy shoes, if we wanted to buy 5,000,000 pairs of shoes we got together with the leather people and with the shoe people, and we said, "What is going to happen if we issue an invitation to bid today for 5,000,000 pairs of shoes?"

They said, "You will completely disrupt the leather market, because each leather marketer gets an option on the quantity he is going to bid on, and you have thrown into the market an apparent demand to make 15,000,000 pairs of shoes, so we suggest you ask for only bids on 2,000,000 pairs, and when that is digested, bring in another 2,000,000 pairs."

We said, "All right; we will not give any one manufacturer more than 15 percent of the order, so on 2,000,000 pairs of shoes, that is 300,000 pairs." That looks like a lot of pairs of shoes, but to the International Shoe Co. that is not a very large order. Their percentage to the total industry is larger than that. However, it would go out that way. Then when the bids came in, we would take each territory, each Federal Reserve district, and the Labor Department would give us the number of shoe machines in each Federal Reserve district; would then compare the proposed award to the number of machines available to see that it was spread across the country as evenly as possible in relation to the industry, and in that way we were able to give a lot of people business, to teach a lot of people to make Army shoes, and to get what we wanted at fairly reasonable prices.

¹ Hearings, Part 5, p. 1387 et seq.

That same principle applies all the way through. It would be easier to ask for a bid on 2,000,000 pairs of shoes, if somebody wanted to bid on 2,000,000, and if he was low, give him the whole thing. That is what can happen and has happened, but by starting back at the beginning of the invitation to bid you can do a great deal with it.

Senator CONNALLY. That policy is being pursued now, isn't it?

Mr. BROWNING. That is correct.

Senator CONNALLY. Both by the Army and the O. P. M.? I don't know about the Navy, but for the Army and O. P. M. they have a policy of undertaking to prorate it around and limit the amount of any one product that certain manufacturers can get.

Mr. BROWNING. On some items under this new plan that has been announced by the Under Secretary, that it should apply on practically all items, and when that is really working, that in itself will tremendously spread this work.

Senator CONNALLY. I know they pursue it, because in one instance, I had a case of cotton mattresses; they limited the number that any one manufacturer could make and went out and paid other people in other sections of the country more for the mattresses than this manufacturer would make them for, but they did it on the pretext of spreading the work around. Isn't that true?

Mr. BROWNING. That is correct.

Senator CONNALLY. And the Government is paying a premium to get some of the cotton mattresses up in the area of Chicago where they raise a lot of cotton, you know.

Mr. BROWNING. I think when you add up the cotton mattresses, a large percentage came from Texas.

Senator CONNALLY. Certainly they came from Texas, all the way. You didn't entirely kill our industry, but you didn't help it much. The reason is, the cotton is down there, and the labor is down there, and they can make them more cheaply, and have been doing it all the time.

Mr. BROWNING. The northern manufacturers complained and said the southern manufacturers were getting more than their share.

Senator CONNALLY. If you figure on mattresses, we are probably getting more than they are getting, but we don't build tanks down there.

Mr. BROWNING. And that is the reason a larger percentage of the mattresses was placed in Texas.

Senator CONNALLY. Certainly. We ought to be allowed to make the things we can make. We don't have any steel mills down there, we don't have any boat companies out on the plains, but we can make a lot of things, and we ought to be allowed to go ahead and make the things that we can make better than anybody else, and make more cheaply. But this policy of spreading it around has really cramped us because it has cut down our pro rata below what it was in peacetime.

Mr. BROWNING. I think about three-fourths of the mattresses, or two-thirds, were purchased in Texas.

Senator CONNALLY. They weren't in this last letting. They may have been formerly.

Mr. BROWNING. I don't know about that. I know the ones in November and December were.

Senator MEAD. In spreading the contracts generally, one requirement is speed of delivery in order to meet the demands of these camps and cantonments, and I presume that some emphasis is placed on speed, with considerable emphasis placed on price, but some emphasis on speed is also a necessity.

Mr. BROWNING. The delivery dates were fixed and everybody bid on the same delivery date.

Senator MEAD. In some of these camps and cantonments, however, some of the soldiers arrived before all the equipment was there, and speed was really necessary.

Mr. BROWNING. That wasn't because they didn't have the material; that was because the distribution scheme fell down somewhere, or the plans were changed as to the number of men that were going to be in the camp, and therefore the material wasn't there. I know of one case where they expected 8,000 men from a National Guard unit, and 12,000 men arrived. When you send the material for 8,000 and 12,000 arrive, you are going to be short of some material temporarily.

Senator MEAD. When a situation like that developed, then speed was more necessary than ever.

Mr. BROWNING. That is right.

Senator MEAD. That is what I said.

Senator CONNALLY. That matter can be controlled largely, though, by the contracting officers giving bonuses or premiums for quick deliveries, or penalties for late deliveries, can't it?

Mr. BROWNING. You can accomplish that by two things. First, in your invitation to bid, you put in a liquidated damage clause for late deliveries, or you can put out two invitations to bid, one asking for a certain quantity with a short delivery date, and another invitation asking for a quantity at a later delivery date, so the men who are equipped to make it fast get in on the first bid and usually bid a little higher than the men who bid on the second bid, or they might bid on both.

The CHAIRMAN. That is all, Mr. Browning, thank you very much.

Mr. Leon Henderson, will you be sworn, please? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HENDERSON. I do.

TESTIMONY OF LEON HENDERSON, ADMINISTRATOR, OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY, OFFICE OF EMERGENCY MANAGEMENT

The CHAIRMAN. Give your name and connections, Mr. Henderson, please, to the reporter.

Mr. HENDERSON. My name is Leon Henderson and I am Administrator of the Office of Price Administration and Civilian Supply.

The CHAIRMAN. Mr. Henderson, we had Mr. Stettinius here yesterday discussing priorities, and I asked him some questions regarding the use of priorities so far as the civilian population was concerned, and he couldn't give me any answer. He said his business was to see that the Army and Navy got everything they wanted, and he didn't seem to care very much whether the civilian population was taken care of or not.

Your duty is to see that civilian priorities are properly allocated?

Mr. HENDERSON. That is correct.

The CHAIRMAN. You have absolute authority to do that?

Mr. HENDERSON. We have authority under the President's Executive order creating my office; yes, sir.

The CHAIRMAN. I would like very much to have you state for the information of this committee just exactly how it works, and what your policy of procedure is, and what you propose to do.

Senator CONNALLY. Mr. Chairman, may I suggest, don't you think at this point it would be well for the witness to put in the record the President's Executive order?

The CHAIRMAN. If you will do that, Mr. Henderson.

Senator CONNALLY. That is the basis of all his authority. I think it ought to go in the record. Is it too long?

The CHAIRMAN. All right; we will make that part of the record at this point.

(The document referred to was marked "Exhibit No. 89" and is included in the appendix on p. 1879.)

PURPOSE AND FUNCTIONS OF OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY

Mr. HENDERSON. The intention of the Executive order creating my office, so far as civilian allocation is concerned, is that after the military needs have been preempted by a priority, the residual supply should be equitably distributed among competing civilian demands. My office was created about the middle of April, and it included the consumer-protection work being done by Miss Elliott under the old National Defense Advisory Commission, my own work on prices, the matter of stimulation of civilian supply and this civilian allocation.

In about a month I got a director of the Civilian Allocation Division, and in another month we were ready for our first plans and programs on this allocation of the residual supplies.

Our first attention was given to the maintenance of the public facilities in this country. It seemed that the primary need for any residual supplies was for transportation, public utilities, and for the health services, for the maintenance of fire and police protection; in other words, that the first claim that the civilian population would want made on what was left over would be for keeping the economy going, and so our first allocations were along that line.

I would like to point out that whereas the priorities created by the Army and Navy Munitions Board are vertical in character—that is, they are a preemption of a certain material for defense orders—ours was a job on a horizontal basis of trying to keep, in the first instance, the economy at work.

It seemed to us, also, that since it was almost inevitable that new goods, new appliances, new mechanical apparatus which competed with the defense needs for the available supplies, particularly of metals, would be foreshortened, there would be a greater demand for repair parts—that is, for the maintenance of the existing load of equipment which the whole Nation possesses in the way of automobiles, transportation, farm equipment, and things like that.

So our next level was on the repair end.

It seemed, also, from our studies of the transportation facilities, that because of such things as the diversion of tankers for the oil-ferry service, and because of the greatly increased strain on the railroads, that new equipment would have to be built in the way of barges, pipe lines, and railroad cars, and among our earliest efforts was to try to say that this should have prior consideration.

Then our attention has to be given to this newly created and fore-shortened residue as to allocation among the industries which are producing civilian goods, and in that an entirely different set of considerations comes into the picture. In determining which of the industries producing civilian goods are to be given the first call on materials, we have to take into account what the existing supply of materials is. As in the case of automobiles, we have, you might say, in this country a pretty large stockpile, something over 27,000,000 passenger cars, I believe; in other words, what the civilian population has that it can postpone for some time to come.

Secondly, we had to determine, and will have to determine in these residuals, what is the effect on the working population, what is to be the dislocation, and we have to take into account what is likely to be the effect on small industries, and particularly on the one-industry towns.

I haven't begun to indicate the number of civilian industries that are not touched by the defense program, but are touched by O. P. M., because, as Mr. Browning has pointed out, they need a small amount of material, of an essential material, heating elements, and things like that, to keep going. As fast as we could talk with those industries, we have been getting up a plan and program which we turn over to Mr. Stettinius' division for administration and policing. In other words, when my order was created I met promptly with Mr. Stettinius as to how we would operate, and it had always been clear to me that a company ought to deal with one Government agency in the distribution of all its materials.

The CHAIRMAN. Now that is common sense. The people come here and they run around like a dog chasing its tail. They never do find the fellow with authority who can tell them what to do. One agency can find out what they ought to do. How are we going to get that?

Mr. HENDERSON. This was highly acceptable to Mr. Stettinius. It seemed logical that we would take these residues, make the best job that we could on the initial allocation, turn them over to him, and he would make the priorities as far as those materials and the industries affected were concerned.

Now, that plan is a workable plan, but there is an element in the picture which I believe may have been overlooked as far as the workability of this priority system is concerned. Almost unnoticed, and particularly due to the increasing defense program, and running along at the same time as an enormously stimulated demand for civilian goods, the amount of chromium and nickel wire, almost entirely needed for the existing defense program, had gotten very, very scarce. As fast as a defense order is placed the manufacturer undertakes to get a forward commitment on delivery of steel, aluminum, nickel, and copper in order to meet his schedules. In recent months the automobile industry, as you know, has had almost a record development, and that is true of what we call consumers'

durable goods, generally, and there has been a great deal of metal already fabricated or delivered to these competing civilian industries; and when we have made an allocation order for boxcars, for anything having to do with transportation, for anything having to do with farm supplies, or have attempted to secure some needed material for an industry that couldn't go on with employment and production without it, the manufacturer's books are already full and he has had to put these new orders clear at the end.

Take the case of boxcars. I had a discussion with Mr. Budd,¹ who is in charge of transportation, last week. We saw eye to eye with him on the need of the making of boxcars; in fact, we were losing about 75 boxcars a day that would have been made if the materials were there, and we gave him a preference as far as the civilian supply was concerned. That went to Mr. Stettinius, and Mr. Stettinius moved it up in the priorities to A-3. But already under A-1 there was this tremendous concentration of orders for all kinds of things that were absolutely necessary to defense: Army and Navy orders, orders for ships, orders for shipyards, an expansion of the bomber program, and things like that. And so it becomes increasingly difficult to get prompt delivery under even an A-3 priority.

This and other considerations were what led me to call a series of meetings with the consumer durable goods industry and discuss with them plans for cutting down, and to try to go at this thing on an industry basis, because it was clear to me that as long as these civilian industries were allowed to continue to make as much as they could, they would do it, and they would not get transferred to defense industries. There wouldn't be the pressure on them to get defense contracts, and the supplies would go to the industries and the companies that were most efficient in getting these supplies.

We had reports of one company that had 82 expeditors out in the field, and, as I used the expression, literally scraping the bottom of the barrel as far as essential materials were concerned. That, of course, meant that when a small industry, or some industry needing an essential element, wanted to get some of this material, it just was not in existence, and from our surveys over the past 5 to 6 weeks, we could see that if this situation were allowed to run we would have a very chaotic situation, that the supplies would not, except by an almost miraculous fortuitous set of circumstances, be in the hands of the industries which the civilian population would want them to be in, but they would be in the hands of the industries that had the biggest pocketbooks, the best organizations for collecting materials, and the greatest energy in seeing that they could secure them, and in some cases the ability to apply pressure.

Let me say this without criticism of the larger industries, that it ought to be obvious that if you are a big buyer from a supplier in ordinary peacetime and you get to a critical stage like this, that supplier is going to be under extreme pressure if an expediter comes to him and says, "We want this material, and if we don't get it we will be looking to some of your rivals when all this thing gets straightened out."

¹ Ralph Budd, commissioner of The Transportation Division of the Office for Emergency Management.

Now, that has been going on, and it is one of the things I think Mr. Stettinius recognizes, and certainly he is making his plans to correct it.

But what is causing the confusion, and, gentlemen, what I feel is going to give us a very acute 6-month period, is the fact that the existing supplies, which might in some cases be ample if equitably distributed, are not in the industries which the civilian community would choose as being the more essential rather than the least essential.

The CHAIRMAN. In other words, there wouldn't be a shortage if the materials hadn't already been cornered by the fellows who are able to corner them. Is that correct?

Mr. HENDERSON. In some cases that is absolutely correct. You have put your finger on it, Mr. Chairman, because those materials under the existing priorities set up are not allocable. You see, the priorities system is a system of service of what comes off a production line; that is, in the case of copper (and it is something I have quite a bit of familiarity with) we can make plans and programs for what copper is currently being produced, plus the total that we are getting from South America, but we have not yet gotten into the question of how large are the inventories and how much might be held in speculative hands.

The CHAIRMAN. Is there any effort being made to get that information?

Mr. HENDERSON. Yes; and it is a thing which both Mr. Stettinius and myself expect to devote our attention to. We are quietly checking up on a number of tight situations. There has been a very, very decided increase in the use of warehouses in the last few months. I know, for example, that right in this town we have discovered that a certain consumer durable goods product, which will have to be cut down as far as manufacture in the months to come, has been stored in very liberal quantities so that the supply is already there. That is a finished product. If that is true of the finished product, it is certainly true as far as the materials that would make this, and the inventory situation is probably the next thing which has got to be canvassed in connection with priorities.

Senator MEAD. Could you receive any help from the Bureau of the Census insofar as an inventory of available material is concerned?

Mr. HENDERSON. Yes; and we have at this time better information on the status of inventories than we ever had before, but information as to who actually holds them we do not have. That is going to call for field work, and it is going to be a painstaking kind of job.

But when we call in these consumer durable goods industries in our next series of meetings, we are going to ask for a statement of their inventory position, and if they have ample to meet the schedules that we lay down, we will ask Mr. Stettinius, through his priorities system, not to allow additional supplies of those materials to go to those producers with the ample inventories.

The CHAIRMAN. That sounds like common sense to me.

Mr. HENDERSON. Well, I think there is one thing, as I say, which has been overlooked, and that is the pace at which American industry has been going, and that pace has not been really fully reflected in the rate of business activity. Mr. Browning said we haven't got up

to \$1,000,000,000 a month yet as far as expenditures go, but as far as the contracts for steel to go into ships, they have already been pre-empted. He was talking about the amount of money that has been spent. In most of the consumer goods industries, the durable ones, such as refrigerators, and all things like that, we were running in recent months 35, 40, to 50 percent higher than the highest level that had ever been attained before, and that tremendous sweep of activity coming along with what you might call the hidden amount, that is, the ordering ahead for defense orders, or even for civilian anticipated production, didn't reflect itself in the amount of Government payments, and although it seemed last fall, when I was on the old Priorities Board, that we would have this problem soon, it seemed that we would have enough time to turn around in.

Another matter which has contributed has been what I would call a failure on all of our parts to see what the total demand, that is the civilian plus defense, would be, and to make the provision for ample supplies. In the case of copper, we have in this country roughly available about 1,000,000 tons. Well, in the early fall that seemed, together with some additions, say, from South America, of maybe 50,000 tons, enough for what the civilian economy would need plus the defense, but there has been, as you know, an increasing amount of defense appropriation, and nearly all the auxiliaries, like utilities and transportation, have had to be expanded, and then there has been this great outpouring of defense money, and people, eager to buy, have gone in, and that stimulated the civilian industries. As a result we are short on copper, despite the fact that we have got the million tons here in America, half a million tons in the South American production which Jesse Jones has bought, and we still could use about 300,000 tons more, and if all the industries could run full we could use another half million tons.

Senator CONNALLY. You mean both civilian and military.

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. Have we got enough for the military?

Mr. HENDERSON. Yes, sir; there will be times, as I think Admiral Towers pointed out, however, that you can't get all of it as fast as you want it, even for defense.

As far as the A-1 priorities go, I can recall one item of \$1,800,000,000, most of which is right in the A-1 priorities. Well, everybody wants deliveries to be prompt, but in the case of steel there has been a confusion, it seems to me, as to whether or not an expansion of steel is needed. The need would be, it seems to me, for about 10,000,000 tons of steel per month, which calls for a capacity of about 120,000,000, whereas if you could wait and make your orders all in one month, that is, the least essential could wait until next May or June before they got their steel, considerably less, perhaps 100,000,000 tons would do, but the orders that are already there, if you wanted to have a smoothly functioning system for the next 6 months, would call for 10,000,000 tons of steel a month.

All these things taken together, plus some others, have indicated to me that as far as the civilian-allocation program is concerned, we are faced with a pretty serious 6 months ahead, and, while it might look as though we were, in our planning program for the automobile and refrigerator industry, and other industries, actually going to cut

down their production, the thing which is going to cut it down is the lack of materials; that is, that cut would come regardless of whether the Government took any action, and it seems imperative to me that the Government take action and get as much order into the picture as possible, and also prevent some industries from getting tremendous supplies that you could not reach through the allocation system. It may be necessary to try other means of getting some of those materials.

EFFECT ON SMALL BUSINESS OF PLACING DEFENSE ORDERS WITH LARGE, INTEGRATED COMPANIES, AND EFFORTS MADE TO RELIEVE CONDITIONS

The CHAIRMAN. What effort are you making to see that the little fellow who is not able to run a "corner" on materials is taken care of in essential matters of the sort that will keep him running?

Mr. HENDERSON. There are several things we are doing, none of which is adequate. As a matter of fact, I am in touch with Senator Murray's committee¹ right now, the Committee on Small Business, and I have asked for a meeting with that committee to make suggestions to me as to how we can put right into our organization some set-up truly representative of the small industrialist, so that he will know where he can go in this competition. If we don't do that and don't take into account the small industry, the thing that I spent so many days in this same room talking about, monopoly, is sure to be greatly intensified in the post-war period.

Now we undertake, on what I would call an ad hoc basis, when we run into an industry that is in perilous shortage of its material, to see what can be done, and I want to say that the Priorities Division which Mr. Stettinius runs tries also to do that. But the nature of the organization of American industry, the representation that the larger can have in Washington which the small man of many, many numbers can't have, makes it almost inevitable that he will be overlooked.

I am meeting this afternoon with the head of the Illinois Manufacturers' Association to talk over what his canvass showed. About 3 weeks ago he came in to see me and said, "We have several hundred manufacturers that have less than 100 employees. All of them are acutely affected. We want to know what we can do to insure that we get what is our proper share of what is left over after defense."

We have also talked with the American Small Business Congress.

Senator CONNALLY. Let me ask you right there wouldn't it be possible for you to compile data through these manufacturers' associations, the census, or some other way, as to what the normal operations of these companies are all over the country?

Mr. HENDERSON. Yes, sir; and we are doing that.

Senator CONNALLY. And prorate your allocations and your priorities comparable to what they have been getting? I mean by that if we are going to reduce everybody 20 percent, cut them all 20 percent, and let the little fellow, like the big one, have his prorate.

Mr. HENDERSON. That is correct.

Senator CONNALLY. Are you working on that?

Mr. HENDERSON. Yes, sir. In the last 2 weeks, when we called our committees in of these durable goods industries, we asked the entire

¹ A Special Committee of the United States Senate to Study Problems of American Small Business, pursuant to Senate Resolution 298, Seventy-sixth Congress, Senator James E. Murray, Montana, chairman.

list of manufacturers to come in; and when we make our allocation in any one of these industries we intend to see that it is done with all of the companies in mind. We have been following the English experience, and they have been confronted with this same difficulty, and I expect that one of the things we ought to do in order to conserve the real fabric of small industry is to be more generous with them in the allocation of materials than we are with the larger companies that can get defense orders. I agree with Mr. Browning—it is very difficult to get a subcontract, and it is even more difficult for a small man, and it seems to us that one of the considerations that we have got to give is the granting of higher allotments to small industries than we do to the larger industries.

Senator CONNALLY. Isn't that accentuated, too, by the fact that the War and Navy Departments as a general rule give the defense contracts to the big concerns?

Mr. HENDERSON. I think it is accentuated and I think in the early days of the contracting that was almost an inevitable thing.

Senator CONNALLY. Isn't that true, and, therefore, oughtn't that liberalize your civilian policy toward the small fellow? The big man has got his plant going for defense, he is making a lot of money, and so forth and so on. The Army and Navy have a lot of fellows that come in and want a contract, and here is a big concern that they know can certainly do it, and it is less trouble to them to just say, "All right, Mr. Big Man, go ahead, we know you can do it. You are big and strong and powerful and we don't want to bother with these little fellows, allocating it around." Isn't that the attitude of the Army and Navy, both?

Mr. HENDERSON. I think that was the attitude in the days when I was serving on the Defense Commission, but that was a necessary result, Senator Connally, of the M-day program.

Senator CONNALLY. Whether it was necessary or not, it was a fact. It is a fact now, isn't it?

Mr. HENDERSON. I think it has been mitigated some, but I think we have got to go to lengths unheard of in breaking down the big contracts into things which the small manufacturer can make. I think we have got to have somewhere here in Washington, as far as this tremendous volume of defense contracts is concerned, almost a department store, and then a small manufacturer can come in and see what he can take off that table. In other words, a great amplification of what Knudsen was doing in Detroit in breaking down a plane into its small elements, and then asking the manufacturers in that district to come and see what they could take off that table. I think that principle has got to be carried to lengths we haven't dreamed of if the small manufacturer is to get something off this table. There is going to be enough defense contracts and they are going to be wanted in a short enough time, so that that can be done. You take the total volume of demand for civilian goods and the total volume of defense contracts, and if they are brought together, we ought not have a tremendous dislocation.

Senator CONNALLY. Let me ask you now, you are talking about the Army and Navy giving most of the contracts to the big concerns. Take ammunition and powder. You say anything to the Army and Navy about powder and the first thing they say is "du Pont. We will

get du Pont to do that." In establishing these new plants, they are turning over practically everything to Mr. du Pont, without going into the question of whether other people are able to do it. It is suggested that they gave some big contract to the Coca-Cola Co. not to make Coca-Cola but to make something else. And Goodrich Rubber were given a contract down in my State to run a big shell-loading plant.

The CHAIRMAN. Procter & Gamble the same way.

Senator CONNALLY. Goodrich Tire knows nothing about shell loading. They load their tires with a bigger price than they ought to, but that is all they know about loading. But they have a big organization, they know they can do it, and we just turn it over to them. Isn't that all through this whole defense program, that the bigger fellow is getting bigger and the little fellow is getting littler?

Mr. HENDERSON. I think that would be the natural consequence of going on the way we are going now, which means I agree with you that is what is being done.

Since the O. P. M. was created, and certainly since O. P. A. C. S., my office, was created, I have confined myself exclusively to the civilian end of the economy. That was the natural division which the President made, and what he had in mind. When he announced O. P. M. to the old Defense Commission, he said they would be responsible for military production. When my office was created, it was intended that we would be responsible on the civilian end. I have taken no part in the letting of military contracts. I have taken no part in any determination as to whether tanks or guns or big planes should be made; I have had nothing to do with the expedition of big contracts; none of the letting of the quartermaster orders. I have been completely out of that for several months and I can't speak directly to point.

Senator CONNALLY. But under your Executive order it is your duty to advise these departments, isn't it?

Mr. HENDERSON. And we are doing that. We are doing that as far as the distribution of these residual materials are concerned.

Senator CONNALLY. But under that Executive order, as I read it, you are authorized, and in fact directed, to advise the Army and the Navy, not with regard to civilian consumption but with regard to their own contracts and materials and purchases and things of that kind, and it seems to me that since that is part of your duty, you might very well talk to the Army and Navy about this disposition they have to feed these contracts all out to the big concerns and starve the little fellows to death. Of course, it is much easier for an Army or Navy man to say, "This is a big outfit, it is all right; it won't bother me, I can get rid of this detail," and so forth and so on. I have had some contacts with them about matters of that kind and that seems to be their attitude. They don't say that but they act that way.

Mr. HENDERSON. I sat with Secretary Patterson, incidentally, in the early days when there was a question of giving a contract on powder to somebody else, and I know he gave earnest consideration to that matter, and he felt that if he made a mistake and there was a shortage of powder in this country that he would be blamed, and he thought he ought to take the rap on picking a manufacturer known to be able to produce powder, and that he could handle that better than he could a shortage of powder.

Senator CONNALLY. With all the scientists we have in the Government—and I think we have got too many—couldn't we run some powder plants? We are furnishing the money to build them. We are furnishing the money to pay the operators a good fee, and the contractors that make it a good profit. Haven't we got enough people in the Government to go out and man these plants? We are going to buy these plants anyway; couldn't we run some of them ourselves if necessary, the Ordnance Corps?

Mr. HENDERSON. I think we could, and that was my contention in the matter of ammonia plants. It is a matter of qualified administration, and the Government can hire those people. As a matter of fact, in connection with the establishment of ammonia plants, American engineering firms have established all over this country, all over the world, ammonia plants.

Senator CONNALLY. If our Government experts are smart enough to tell everybody what to do, it looks to me like they could do some of it themselves.

Mr. HENDERSON. I would agree on that, Senator.

Senator MEAD. Mr. Henderson, in order to get this program out among the small contractors, don't you think that there should be written in every contract a requirement that the percentage of the contract to be subcontracted be mentioned in the bid; and if, for instance, there was a proposal for \$100,000 worth of material or work and contractor A was going to do it all himself and contractor B was going to subcontract 30 percent of it, that favorable consideration should be given to the contractor who is going to do some subcontracting in the ward of that contract?

Mr. HENDERSON. I think so. That is the English system and they have had a reasonable amount of success in specifying in the contract what should be subcontracted.

Senator MEAD. If there is any merit in that plan, then why couldn't we order the renegotiation of all existing contracts that have not yet been started so as to give it a quick spread?

Mr. HENDERSON. I think Congress could do that.

Senator MEAD. And then thereafter in all future contracts we could specify that this contract must carry with it a minimum spread among subcontractors of a certain percentage.

Mr. HENDERSON. I think that might be taken together with what I said of the department-store idea, and another thing which you might consider. Most of the big companies have very remarkable engineering staffs. I think if many of those were drawn in to look at these contracts and the product that is to be made, they could be of enormous help to the Government in breaking down those contracts into small items that a small manufacturer could make; and I think that, taken together with these other ideas, the Government might well employ the engineering ingenuity of General Motors and of Ford and of General Electric, and the big industries, to see what they could do if they were given that specific problem of breaking the contracts down into something which a small company could do. If you add that to the provision of a certain amount that would have to be subcontracted I think we would get an enormous help in preventing this tremendous dislocation that is bound to take place right now. The dislocation is going to come from a shortage of raw materials and a failure of what raw materials there are to be in the proper hands.

Senator MEAD. With reference to materials, I don't suppose this comes under your jurisdiction, but we read of the departure from our shores of a great deal of material that we could use right here in this country. For instance, they are threatening to shut off our oil supply in the Northeast, and a few days ago some 400,000 barrels of oil left the Pacific coast for Japan.

Senator CONNALLY. Let me ask you right there: if the Japs don't get oil from us, where are they going to get it? They are going to get it out of the Dutch East Indies.

Senator MEAD. Regardless of where they get it, that was material——

Senator CONNALLY (interposing). They will move in there. If we want them to move into the Dutch East Indies, that is a good way to get them to do it—to cut off our oil.

Senator MEAD. And if they move in, they will move in with our oil, won't they?

But, regardless of that, that is an illustration of the point I want to make. We want to be very careful about the exportation of our materials.

Mr. HENDERSON. That is correct.

Senator MEAD. And it seems to me we ought to use them for home consumption first, regardless of Japan or any other country. That isn't within your jurisdiction, I suppose.

Mr. HENDERSON. No; but we maintain a contact with the Export Control, a very close contact. In fact, we prepared in the early days some of the economic analyses upon which the restrictions of exports were based. I personally wrote the one on scrap iron which was put into effect in October, I think, of last year. But as General Maxwell has expanded he has taken on most of that; but we do keep in touch with it.

May I add one other sentence? What we need are great gobs of copper and things like that which are not going out. We need literally hundreds of thousands of tons of these materials, and we need nickel and chromium and these essential items, as Mr. Browning pointed out, that you have to have to make a proper heating element, or you need to make spectacles, or you need to make hearing apparatus, and things like that.

Senator HATCH. Of course, there is no real shortage of oil itself; it is in transportation more than anything else; but in these items on which there is a real shortage, are any of those going out, being exported?

Mr. HENDERSON. Not to any appreciable extent; not to an extent that would substantially aid in this problem of keeping American business on an even keel in these critical months to come.

Senator CONNALLY. Are we getting chromium from the Philippines? Don't they produce more chromium than any other place in the world in the Philippines?

Mr. HENDERSON. I can't answer that, Senator.

Senator MEAD. Talking about exportation of materials, under the lend-lease bill and under our regular commerce regulations, we export a great deal of materials that are helpful to the democracies in their defense, which is according to our policy, the policy of the Congress; but we hear over the radio, and we read in the Congressional

Record, and we read from the reports of the House of Commons, that a great deal of the American airplanes, and other defense equipment, is stored high up on the wharves of England and the Suez Canal and other places, uncanted and unused. It might be advisable for us to get it over there in huge numbers, and at the same time give China a very paltry share of our export of war equipment and materials, and in that way increase the menace in the Pacific; but it seems to me if we have a scientific method of allocating materials and supplies to our own people, to our own industry, that we ought to have a scientific allocation of our defense equipment so as to get it to the nations when they need it, and not to endanger it by having it stored up and unused and uncanted. Give it to them as fast as we can, as fast as it is available and where it is needed the most, but deliver it wisely and systematically.

So, it occurs to me that we might have an allocating board in connection with the lend-lease program which might help the country out in the proper distribution of these materials. We might be short on some materials that certain countries, recipient of our benevolence and our aid and our help, might use, and then again we might have more materials of a certain type there than they can use for the next 6 months.

I don't know whether these reports are right, but almost every day over the air, and occasionally in the newspapers, and the other day in the House of Representatives, and a few days before in the House of Commons, we read of charges of uncanted equipment stored along the docks. We should not send too much in one direction and not have enough in the other. We ought to see that our own defenses are properly safeguarded, and at the same time aid the democracies of the world as much as possible. But I am just suggesting that I think the time is ripe to have a sort of allocation system in connection with our lend-lease program, just as we have an allocation system applying to our own democratic economy and to our own national defense effort.

MR. HENDERSON. I don't have a detailed knowledge on the lend-lease. I do know that the amount which goes to the other democracies is well within our ability to provide, and that if we will put the proper amount of energy on the allocation of what is left, and if we will do as we are trying to do in copper, step up the production so that more will be available, we can handle the problem here. I think that the amount of attention that we have got to give has been underestimated, and for the last several weeks I have been under the feeling that unless we did move very, very promptly, we would have the equivalent to what England found when she had to transform very, very quickly into a defense effort—that is, an increase in unemployment. It was almost unavoidable because they had no provision for getting the defense contracts or their armament contracts into the proper places.

THE CHAIRMAN. Any more questions?

Senator CONNALLY. He is not through, is he? I thought Mr. Henderson was going to talk about price fixing. Have you got a written statement, Mr. Henderson, or are you just talking extemporaneously?

MR. HENDERSON. I am just responding to questions and amplifying on that.

PRICE FIXING

Senator CONNALLY. I want to talk to him about price fixing, if nobody else does.

The CHAIRMAN. Go ahead, Senator.

Senator CONNALLY. Mr. Henderson, your chief function is fixing prices, isn't it?

Mr. HENDERSON. I think that is one of my two chief functions. I think this civilian allocation is the more troublesome and the more disagreeable, disagreeable as price fixing is.

Senator CONNALLY. I know it is more disagreeable to you, but not to the fellow who gets his prices fixed. It is pretty hard on him.

Mr. HENDERSON. I think the fellow that has to go without a material is going to be hurt worse than the fellow who gets his price fixed.

Senator CONNALLY. Have you a general counsel? I suppose you have.

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. How many lawyers have you got in your organization? Have you got any of them with you here today?

Mr. HENDERSON. No, sir.

Senator CONNALLY. Would you mind having some of your lawyers sort of brief the acts Congress, or Constitution, or the laws, or whatever it is that you are acting under in fixing prices, and put it in the record here?

Mr. HENDERSON. Yes, sir; that has already been done. I submitted it to two other committees and privately to Mr. Fulton.

Mr. FULTON. I already have a memorandum which I will send to you, Senator Connally.

Senator CONNALLY. If you have it in the office, it won't do any good up here. I would like to see it, myself.

You fix only the maximum prices, is that right?

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. Suppose you fix a price and the fellow doesn't observe it; what do you do to him?

Mr. HENDERSON. Usually talk with him about it.

Senator CONNALLY. There are a lot of people in the United States, all over the country. You can't talk with all of them.

Mr. HENDERSON. That is right, but most of them observe the prices, Senator.

Senator CONNALLY. Most of them observe it, of course. If a governmental agency, whether it has any legal authority or not, takes a position on prices, it is going to affect the market of that article, isn't it, inevitably?

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. You have undertaken to fix the prices of a number of farm commodities, haven't you?

Mr. HENDERSON. No, sir; I think that the price on hides is the only one that is under a formal ceiling.

Senator CONNALLY. You put a ceiling on cotton goods, on manufactured goods, didn't you?

Mr. HENDERSON. That is correct.

Senator CONNALLY. Of course, that has no relation to the price of cotton!

Mr. HENDERSON. I noted the price of cotton kept on going up after we issued the order. I wouldn't assume there was a direct relation.

Senator CONNALLY. Do you think your order caused it to go up?

Mr. HENDERSON. No; what I am suggesting is that perhaps it had no effect on it.

Senator CONNALLY. What happened probably was that the Government has all this cotton stored and it can't get on the market, and on what little is left, of course, the price would have gone up whether you had fixed the price on cotton goods or whether you hadn't; isn't that true? You are an economist, an expert, and I have high respect for your ability if not always for your policies.

Mr. HENDERSON. That is a reciprocal arrangement I think we have, Senator.

Senator CONNALLY. I am very greatly flattered by that statement.

Mr. HENDERSON. I think I have given you assurances of reciprocity over a period of years.

Senator CONNALLY. Yes, sir; I have very high regard for you, Mr. Henderson, but I don't always agree with your conclusions and findings.

The Government has had a program here for about 8 years of trying to raise the prices of farm commodities by the payment of benefits and cutting down acreage, and propaganda, and all that sort of business, to raise these prices. What good is that program going to do if you sit over there and every time a price starts up, you hit it on the head?

Mr. HENDERSON. It would do no good if we hit it on the head and forced it below what the governmental determination had been. But the prices of cotton and practically all the farm commodities are at near or above parity now.

Senator CONNALLY. You fixed the price of cotton goods, didn't you?

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. And then you raised them 3 cents a pound.

Mr. HENDERSON. Four cents.

Senator CONNALLY. You were wrong either when you fixed them originally or when you raised them later.

Mr. HENDERSON. The price of cotton went up.

Senator CONNALLY. I don't mean that; you were wrong one time. You fixed it too low to start with or fixed it too high when you raised it, didn't you?

Mr. HENDERSON. When we fixed it in relation to all the factors, it was a proper price, and if we had left it stand, it would have been a wrong price. I don't agree that we made a mistake, because I couldn't foresee that prices of cotton were going to go up.

Senator CONNALLY. Of course, I don't expect you to admit you made a mistake. I made one once, but I wouldn't admit it.

Mr. HENDERSON. If you will ask me about mistakes I have made, I can probably supply a long line, but it is not customary to do that.

Senator CONNALLY. Is it your idea that you are going to raise them and lower them and keep them in the right balance; is that your idea?

Mr. HENDERSON. My idea is that to try to maintain a price ceiling, it has got to have a relationship to actual costs of the producer, and you can't fix a rigid price and say that is what it is and go away and

leave it, because the essential function of price is to see that production actually takes place.

Senator CONNALLY. There is too much production now, they claim, in agricultural products. Let's see about that. When you fix one price and it goes along at that figure for some time, and these speculators that you talk about, these big concerns, buy up a lot of it and the next day you raise the price, what do you do to them? You give them a big profit, a tremendous profit, to the extent of all their stores and supplies, and the little man you have been talking about all morning is going to have to pay for it, the consumer?

Mr. HENDERSON. If we did things on that basis, we would create that condition, but in the case of cotton we did no such thing.

Senator CONNALLY. I used cotton simply because I live in a cotton country, and naturally I would probably know a little more about cotton than some people.

Mr. HENDERSON. I don't know the complete degree to which any speculators in the raw cotton profited by our recent order, but I do know as far as the mills are concerned—and they are the ones I was particularly concerned about—they are on an operating basis.

Senator CONNALLY. When you jumped the price 4 cents, you helped every man that had to manufacture cotton goods, didn't you? You made his profit jump right up, didn't you?

Mr. HENDERSON. I made his prices jump up. He has contracts. Senator Connally, the cotton mill manufacturer is delivering goods, and will deliver goods, for several months on prices that were contracted for well below the ceiling; that is, the great volume of mill production for the next several months will be below the 39-cent price we had set. What they are doing now is taking orders for future deliveries, and they are making their contracts at 43 cents for the print cloth, and the cotton mill manufacturer goes out into the market and buys his cotton now that he is going to make into that print cloth several months later. That is, he hedges, and he does it promptly when he taken an order.

As I understand it, a very few of the 1,200 mills actually take a chance on inventory.

Senator CONNALLY. Doesn't the price of every single commodity have relationship to the price of every other commodity?

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. How can you just look around and say, "Well, we will fix the price of that, and we will fix the price of that, and we will fix the price of that," and not fix the price of everything, as of some particular date? If you are going to have a price-fixing scheme at all, oughtn't you to establish a base date somewhere, and say that the prices shan't go above that price, or shan't go more than 10 percent, or 5 percent, or 15 percent? Isn't any arbitrary system of fixing some prices and not fixing all prices unfair and economically unsound to the people whose prices you are fixing? I ask you that. I am not an economist.

Mr. HENDERSON. If you assume that the ones you didn't fix went up, and the ones you did fix stood still, that would be true, but what we have undertaken in our price ceilings is to pay attention to the ones that were moving very, very rapidly, and the ones that were basic, and we have kept under some kind of balance in prices practically all of the basic commodities.

Senator CONNALLY. How many commodities are there? You economists have a list of the number of commodities. How many thousands are there?

Mr. HENDERSON. The Bureau of Labor Statistics wholesale price index has about 1,000.

Senator CONNALLY. They just select that thousand in order to balance off their price index, but, as a matter of fact, there are many thousands of commodities, aren't there?

Mr. HENDERSON. That is correct.

Senator CONNALLY. How many have you fixed the prices of, seven or eight?

Mr. HENDERSON. We have had price ceilings on 12 industries, but of course that takes in steel, which has literally hundreds of products; it takes in most of the metals; it takes in the cotton; and we have a contemplation of bringing rayon in also.

Senator CONNALLY. Have you fixed wheat?

Mr. HENDERSON. No, sir.

Senator CONNALLY. Why don't you fix wheat?

Mr. HENDERSON. The congressional determination on parity and the fact that the wheat market is not in an inflationary status are the main considerations.

Senator CONNALLY. As between wheat and cotton, though, I suppose by implication you mean that the cotton price is in an inflationary condition.

Mr. HENDERSON. It was. The cotton cloth price was, and that is what we fixed. The cotton cloth prices were in a very, very disturbing and highly inflationary condition.

Senator CONNALLY. How about the price of bread and the price of wheat? Aren't you going to do anything about fixing the price of a loaf of bread?

Mr. HENDERSON. We have been working with the bakers, and we asked them some weeks ago not to raise their prices without consultation with us. In recent weeks we have talked with the principal producers of bread, have gone into their costs, and found that in some communities the price probably ought to be raised; and we suggested that they do not raise it more than 1 cent; and I am happy to say that most, or practically all, of the bakers with whom we have been in touch accepted that suggestion. I met with one of the biggest ones yesterday.

Senator HATCH. That increase in price isn't due to the price of wheat, is it?

Mr. HENDERSON. It is partly due to the increase in the price of wheat as reflected in the price of flour. The price of milk has gone up. We went through the principal ingredients and made an actual break-down of the cost of probably 40 percent of all the bread that is sold in the United States, and practically all of the items had increased.

Senator HATCH. The reason I asked about it, I am not familiar with the present market; but it is quite a bit below parity, isn't it? The same way with corn and other products of that kind.

Mr. HENDERSON. I haven't at my fingertips what the parity prices of all of those are, but the price of flour has gone up, and if I may say off the record, I am looking into the elements of cost in wheat. We have had some complaints that that rise is not justified by the rise in the price of wheat and the cost of labor; but the bread price has stayed pretty much the same.

Senator HATCH. I was interested in that because the wheat price is below parity, and wheat at \$1 or \$1.25 a bushel isn't a high price at all for wheat.

Mr. HENDERSON. I think you would find, Senator Hatch, that most of the agricultural products when the war broke out in 1939 were below parity, and that they were at unusually low levels.

Senator HATCH. Too low.

Mr. HENDERSON. And that the food prices reflected those very, very low levels.

Senator HATCH. I don't agree with that at all.

Mr. HENDERSON. The food prices, I say.

Senator HATCH. I don't think so. The price of bread did not go down.

Mr. HENDERSON. The price of bread went down, I believe, in October of last year.

Senator HATCH. How much?

Mr. HENDERSON. I think it went down a cent. But a lot of the foods reflected those unusually low prices for farm products, and as the prices have stiffened for all kinds of agricultural products, it is being reflected in the cost of food. That is disturbing to the consumer, but in one way you can say that the prices are coming into balance, but he notices an increase in the amount of his grocery bill and the meat bill.

Senator HATCH. I don't believe, Mr. Henderson—and I have made no particular study of it—that you will find that prices of the food products to the consumer decreased correspondingly with the price that the producers of farm products received.

Mr. HENDERSON. I would agree with you, Senator Hatch.

Senator HATCH. And I think you will also find that when the price of farm commodities goes up, the cost of the food goes up out of proportion—that is, the finished product—to what the farmer receives.

Mr. HENDERSON. I would agree with you, and I might say, in one very essential product we asked the manufacturers not to increase the price of this food and to absorb out of their generous margin the increase in the cost of their raw materials, and they did.

Senator HATCH. I have always felt the cost of the raw material was an unimportant factor in either the rise or the decrease in the cost of the finished product.

Mr. HENDERSON. We haven't touched many of the actual foods.

Senator HATCH. I understood you to say that you had no idea of fixing any prices of farm commodities where those prices were below the standard fixed by the Congress in its parity-price program.

Mr. HENDERSON. That is absolutely correct. I had a long interrogation on that before Senator Smith's committee,¹ and I think my statement of that was unequivocal. I said there that any determination on any price that the Congress makes and any policy they lay down will be the guiding policy so far as I am concerned and as long as I am there.

For a long time, as you know I have thought that farm prices were too low, and I have been a supporter and an advocate and a worker in the administration's program to have them lifted, and I don't see when you get into a difficult situation of price fixing that you ought to run away from that policy, even though it is occasionally more difficult.

¹ Senate Committee on Agriculture and Forestry; hearings pursuant to S. Res. 117, 77th Cong., Mr. Henderson appeared before the committee on May 29, 1940.

Senator CONNALLY. Mr. Henderson, you say that farm prices in 1939 were very low; when the war in Europe started they were very low and out of balance.

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. If that is true, don't you think the farmers are entitled to a little edge and a little velvet now when they are going up? Do you think they ought to be put in a strait jacket and say, "You can starve for 10 years, and as soon as it starts up, though, we are going to chop you off at a certain point"? You don't think that, do you?

Mr. HENDERSON. No; but I don't think, out of the present prices, that you can correct all of the losses of 10 years. Every industry that has come in that has had a low earning record has asked us to give that some attention. One industry was in the other day and said, "We ought to have an earning rate of 2 percent more than a fair return in order to make up for all those losses." I think that some of the farm prices are pretty fair prices now.

Senator CONNALLY. Isn't it inevitable that when you withdraw from production all the men that we have withdrawn and put them into the Army and Navy and divert a great many others from normal civilian activities to the production of defense materials the prices of those commodities are going to go up?

Mr. HENDERSON. Yes, sir.

Senator CONNALLY. The demand is greater, the supply is less, as a rule; you can't ignore all of those natural laws, can you?

Mr. HENDERSON. No.

Senator CONNALLY. Just part of them?

Mr. HENDERSON. Senator, you and I could have a very extended debate on the natural laws. Tariff is an interference with the natural law.

Senator CONNALLY. That is right.

Mr. HENDERSON. There are things that can be done about natural laws.

Senator CONNALLY. That is what I am talking about. There are too many of them.

Mr. HENDERSON. I kick about the ones that aren't on my side.

Senator CONNALLY. What is that?

Mr. HENDERSON. I kick about the natural laws that run adverse to me.

Senator CONNALLY. Of course. You are talking about the price of wheat and bread. You said that the price of bread would probably go up.

Mr. HENDERSON. In some localities.

Senator CONNALLY. And, of course, the fellow you are talking about, the consumer, is going to raise a howl, but isn't the producer of that bread that feeds him entitled to some consideration as well as the fellow who sits under a fan and eats it?

Mr. HENDERSON. Absolutely; and I might say I am in the center of all of those pressures. The farmer, the fellow that is milling the wheat, the baker, and the consumer are all pressing on me.

Senator CONNALLY. That is right; you are on a very active sector, there is no doubt about that.

Mr. HENDERSON. And that goes also, Mr. Chairman, on this allocation matter. You probably can see from our automobile program

that somebody has got to make the best determination he can, considering the pressures of labor, the pressures of the community, of the tax program, the pressure of the other industries that want the material that is being chewed up by the automobiles, and the needs of the consumer for the maintenance of transportation, highways, and all those things, and when I said to Senator Connally I thought it was a more disagreeable job than fixing a price, I had that in mind, and it seems to me on this civilian allocation we have got to apply standards that you do not have to apply on defense priorities. It seems to me it is a fairly easy thing, as far as the Army and Navy Munitions Board are concerned, as to their priorities. They come first. They come first in the point of the amount. They come first in the point of time.

Senator CONNALLY. Mr. Henderson, let me ask you another question and then I won't bother you any more. Have you fixed the prices of automobiles?

Mr. HENDERSON. No; but I have got some ideas.

Senator CONNALLY. I am sure you have.

Mr. HENDERSON. And I have told them that they will probably be put under some limitation. I don't think when you foreshorten the supply that you can escape the necessity of keeping that price in line, and that goes for every priority.

Senator CONNALLY. I know, but I am talking about automobiles now. You haven't fixed the price of automobiles. People could walk, couldn't they? They used to walk. But you haven't fixed the price on automobiles.

Mr. HENDERSON. I have tried to keep them from going up.

Senator CONNALLY. Have you fixed the price on electric refrigerators? We need a lot of aluminum. Have you fixed the price of refrigerators?

Mr. HENDERSON. I expect to.

Senator CONNALLY. You haven't yet, though, have you?

Mr. HENDERSON. No; but they have not given us a great deal of concern up to now, and neither have the automobile prices.

Senator CONNALLY. They must not have given you any concern if you haven't done anything about it. We could get along without refrigerators, couldn't we?

Mr. HENDERSON. Yes.

Senator CONNALLY. We need airplanes a heap worse than we need refrigerators.

Mr. HENDERSON. That is correct.

Senator CONNALLY. You could fix it so it would be unprofitable to make them, and that would give us a lot of aluminum for airplanes.

Mr. HENDERSON. Yes. You say I could.

Senator CONNALLY. You aren't going to do it, of course.

Mr. HENDERSON. I don't know how you would make it stick.

Senator CONNALLY. You make this other stick, you say.

Mr. HENDERSON. No; because under all of our schedules the industry can make a reasonable profit.

Senator CONNALLY. You say you can't make it stick on those things. If you have any authority to make it stick on anything, you have got authority to make it stick on everything. Isn't your present system of price fixing just a polite form of blackmail? You just scare them into it?

Mr. HENDERSON. No; I think it is a much deeper thing than that.

Senator CONNALLY. You take the "polite" out and make it just blackmail.

Mr. HENDERSON. No.

Senator CONNALLY. You said you had no legal authority to fix the price.

Mr. HENDERSON. I did not, sir.

Senator CONNALLY. You said you couldn't make it stick on refrigerators. If you can't make it stick on refrigerators, how can you make it stick on wheat or cotton?

Mr. HENDERSON. What you said to me was, "You could make it unprofitable," and I said I couldn't make it stick, because I think any price fixing in a democracy is dependent completely on acceptance by the industry and the community that that is a fair price, and no amount of price fixing and no amount of laws is effective otherwise. You can establish a guillotine if you want to but you can't make a price stick if it is not a fair price and if the community rejects it, and that is what I had in mind when I said I can't make it stick.

Senator CONNALLY. I don't think there is any use of discussing it further because I know you aren't going to do it; you aren't going to fix the price of electric refrigerators.

Mr. HENDERSON. The price we fix of the electric refrigerators that are made ought to be a fair price.

Senator CONNALLY. Oh, yes; it ought to be; but you aren't going to fix the price.

Mr. HENDERSON. I will lay you a little bet on that that I am going to fix the price of refrigerators.

Senator CONNALLY. You will, but you say you can't make it stick.

Mr. HENDERSON. I said you can't make it stick if it is an unprofitable price.

Senator CONNALLY. You are going to fix the price whether Congress gives you the authority or not?

Mr. HENDERSON. I have the authority to fix prices now.

Senator CONNALLY. I want to see where you have the authority to fix prices on anything you want to in the United States. I want to see what your authority is.

Mr. HENDERSON. I have the same authority Baruch had in the last war, and to the best of my knowledge that was not challenged. It was not challenged by the Graham Committee¹ or by the War Policies Commission.

Senator CONNALLY. If you have the authority to fix prices, you have more authority than any other man in the United States, including the President of the United States.

Have you fixed the price of shoes?

Mr. HENDERSON. No.

Senator CONNALLY. People have to wear shoes as well as eat bread.

Mr. HENDERSON. That is correct. We have worked with the Army Procurement—

Senator CONNALLY (interposing). I am talking about the price for everybody, civilians and everybody else. You haven't fixed the price of shoes. The industry up in Boston and Brockton won't let you fix it and you aren't going to fix it.

¹ A House of Representatives Select Committee on War Expenditures, Sixty-sixth Congress, first session.

Mr. HENDERSON. Mr. Senator, you imply there that I don't fix some of these things because I am scared.

Senator CONNALLY. I know you aren't scared but you just don't feel like it.

Mr. HENDERSON. No; I apply other standards, and I gave you the standard we were applying.

Senator CONNALLY. You haven't fixed the price of shoes.

Mr. HENDERSON. That is correct, and the price of shoes hasn't run out of line.

Senator CONNALLY. Have you fixed the price of clothing?

Mr. HENDERSON. No; and the price of clothing has not run out of line.

Senator CONNALLY. Who says it hasn't run out of line? You say it hasn't, but you mean it hasn't gone up like you think it ought to go up. You mean by your standard, by your idea, regardless of economic laws and economic principles, which, of course, you understand, and I bow to your ability—and that is why I am so afraid of you. When a man is smart and doesn't know how to do right as to policy, he is a dangerous man.

Mr. HENDERSON. That is correct.

Senator CONNALLY. And I say that with all respect and as a very great compliment to you. If you didn't know anything, I wouldn't be afraid of you at all, but you know so darned much, and given all this tremendous power, you become a dangerous figure, a threat. That is all.

Mr. HENDERSON. May I be permitted to comment on that?

The CHAIRMAN. Proceed.

Senator CONNALLY. That is all friendly. This is an open session. I am not talking behind your back.

Mr. HENDERSON. No. I think over a period of years that the thing I have enjoyed in an association I have had with you is that you have always spoken very frankly, and you have permitted me to speak frankly back to you.

Senator CONNALLY. Yes; this is free speech. Go ahead.

Mr. HENDERSON. I think the price-fixing power is a very important power. I think that the industries that have been brought under our ceilings have not felt that it has been operated in a dangerous way, that we have been destructive of capital. I think that there is a tremendous amount of seriousness on the part of most business people, and most farmers, and most labor, as to the dangers of inflation, and they accept a discipline.

Senator CONNALLY. Let me ask you this: Are you going to fix wages?

Mr. HENDERSON. I have no authority under the Executive order to fix wages.

Senator CONNALLY. You say you have the authority to fix the price of everything. Aren't you going to fix the price of wages?

Mr. HENDERSON. As I understand it, wages are not a price.

Senator CONNALLY. What I am protesting against is, if you are not going to fix wages for the fellow in town, I am not in favor of giving you the power, or letting you exercise it if you have it, of fixing the wages of the fellow that lives out in the country, and he is a laborer as much as the town fellow except that he labors out under the hot sun while the other fellow labors in an air-conditioned

factory, or whatever it is. He is just as much a laborer, he is just as much a wage earner because he lives in the country and fights the gnats and mosquitoes and the hot sun, as the fellow that lives in town. How are you going to dissociate those two?

Mr. HENDERSON. Senator Connally, I was authorized to take the steps of keeping the community price level in line. I never thought that I had a control over the interest rates. I never thought that I had a control over the transportation rates.

Senator CONNALLY. They are factors in cost, aren't they?

Mr. HENDERSON. They are.

Senator CONNALLY. All those things are factors in arriving at the cost of an article.

Mr. HENDERSON. I never thought, and I never presumed for 1 minute, that the Executive order the President gave me authorized me to supersede the I. C. C. or any State in connection with public-utility rates, or the wage-and-hour law, or any other law relating to wages. I have thought that there was an area, a proper area, that the President picked out for me, and that I would do my best according to my lights. You have favored me by saying that I am smart. I want to tell you in all humility that I am not smart enough to fix all the prices and fix them correctly. I believe that I do realize the seriousness of an inflationary threat, and I am going to do, regardless of how much pressure I am under, what the President told me to do until he tells me to stop or until the Congress tells me to stop.

I think when it all adds up, and when somebody makes a judgment in the years to come, that the thing I will be afraid of is not that I moved too far, or that I moved too fast, or that I moved without specific authority. I think I will regret that I have not moved with greater vigor and done more things. But I don't think, Senator, that I will ever feel that in that period I should have tried to encroach on the authority specifically delegated by Congress to other agencies for the control of certain costs: Transportation, utilities, wages, interest rates, taxation, savings, and all the things which are factors.

Senator HATCH. Your general proposition, Mr. Henderson, as I have understood your testimony, is that so long as any commodity, that is the raw or finished product, is within reasonable bounds as to the cost of production of that article, allowing a fair price, a fair and reasonable profit, then your office will not be called in to take any action whatever.

Mr. HENDERSON. Correct. The first designation that the President gave me was price stabilization, not of a rigid price control, and that has been our attitude. It takes a lot of people, a lot of well-qualified people to run what I call a price administration. This cotton-cloth thing is a typical example. We spent several months with the best information the Government had and that we could get from the industry before we fixed that ceiling, and then we keep in constant touch with the industry as to what changes are taking place in those factors. It was admitted by the cotton-yarn people and the cotton-cloth people that the prices were getting out of line, and many of them wanted this. All they asked was that it be a fair price under which they could live and deliver a large volume of goods.

We haven't gotten to some of the prices that have gotten out of line. Some of them are very, very difficult to handle. You take any chemical

product, for example, which is a joint-cost matter; you don't know exactly what the cost is that has gone into that particular item. Or you take the example of something that is imported, and the man here has paid the price that he had to pay to get it; it is very difficult to fix that price.

We undertook, based on the World War experience and on the experience of England, to get at the commodities at the beginning end of the line, the metals, the things that ran outrageously high the last time before Baruch got hold of them, and I am fairly well satisfied with what we have been able to do with some of those.

The CHAIRMAN. Are there any other questions?

Thank you, Mr. Henderson. The object of this meeting this morning with you was to get as much information as possible as to the things you were doing to take care of the small man who is in the civilian manufacturing business; that is, manufacturing things for civilian use outside of the defense program. If there is any further information that you can give this committee at a later date on that subject, we are very vitally interested in it, because I think it has more to do with our economic situation after this thing is over than any other one thing at the present time.

Mr. HENDERSON. May I in summary make a little statement?

The CHAIRMAN. Proceed.

Mr. HENDERSON. I have spent a lot of time on the matter of prices and I have spent a lot of serious thought on this matter of civilian allocation and how it affects this economy and how it affects small business. There has been some question, I understand, as to where military production stops and where the civilian end begins.

The CHAIRMAN. I think it is a very difficult line to draw.

Mr. HENDERSON. I don't think it is an extraordinarily difficult line to draw. When the President set up the O. P. M. and told the Defense Commission what it meant, that he had seen the need for concentrating on the getting out of the defense load and he saw in the future an expansion of that, there were on that Commission at that time seven Commissioners—Miss Elliott on consumer protection, myself on price, Ralph Budd on transportation, Chester Davis on agriculture, Stettinius on raw materials, Knudsen on production, and Hillman on labor. That in its advisory function did comprehend most of the elements of a total community. The O. P. M. was set off to do military production, but the organization dealing with production and raw materials which was taken to O. P. M., had been functioning in the Defense Commission for the entire economy. That is, in the matter of the copper supply, in the matter of the production of some articles that weren't strictly defense, the proper organization for those units was in production and in the raw materials, and these units were in O. P. M. We were confined strictly to price, Miss Elliott to her field, Hillman to labor.

As you know, three elements went into O. P. M. The President was very specific as to what he had intended as far as the function in the matter of production, and that would run, of course, to allocation and priorities, and in the set-up of my office, there was a similar responsibility lodged with me. We have been functioning, as I have indicated, only a few months. Obviously there will be difficulties that will

arise. That is, take a unit in O. P. M., whether it is in procurement or in priorities, or whether it is in production or raw materials, it will take time. Discussions will arise. I would hate to see the situation where people earnestly devoted to what they feel they have got to do didn't have discussions and disagreements, and things like that. That takes time to work out.

I feel that the division between the military and the civilian is a logical one. I think that it is well recognized. I think that as the defense effort grows and as the acuteness of the civilian difficulties grow, that back and forth, as we have been all along, we will find the proper place for conservation and simplification. I have no feeling that that will not happen, but it seems to me that there is an essential and a logical division, and that line can be fairly well drawn.

We prepared a memorandum of what seemed to us to be directly related to defense. That has been submitted to the O. P. M. Their people are looking at it. I presume that they will have suggestions to make, and as in the case of everything where we have been trying to make these rearrangements and get them down into military and into civilian, that we will work those out.

I share with Mr. Stettinius his statement that there has got to be this going ahead of working out. I think we will be well along on that before very long, and I think the sheer necessity of getting things done for small industries, of seeing that communities are not deprived of their essential industries, will force the defense effort to make renewed effort to work out these problems. And I am not at all concerned. I think that the line is fairly clear as between the military and the civilian. I think that it may waver at some points, but we can figure on the basis of defense being about 20 percent of the total production and civilian about 80. There are many industries that we touch, that we have to touch, that are not touched by the military-production department except incidentally and almost accidentally, and I am sure that is what Mr. Stettinius had in mind, and that we will go forward with these things; and if we happen to have disagreements, we will settle those. We have been settling disagreements for a long, long time, and they have been healthy disagreements. As I indicated earlier, I don't believe that it is a matter that has to bother anybody except ourselves in the seriousness of what is ahead.

The CHAIRMAN. Thank you, Mr. Henderson.

Mr. Eccles, it is rather late, but I think you would rather go ahead.

Mr. ECCLES. Whatever is the pleasure of the committee.

The CHAIRMAN. It is the pleasure of the committee that you go ahead. Will you be sworn, please? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. ECCLES. I do.

TESTIMONY OF MARRINER S. ECCLES, CHAIRMAN, BOARD OF GOVERNORS, FEDERAL RESERVE SYSTEM

The CHAIRMAN. Will you give the reporter your name and connections?

Mr. ECCLES. Marriner S. Eccles, Chairman of the Board of Governors, Federal Reserve System.

PROVISIONS OF FEDERAL RESERVE ACT FOR EXTENDING WORKING CAPITAL TO
SMALL BUSINESSES

The CHAIRMAN. Mr. Eccles, this committee is interested in the welfare of the small businessman and the small manufacturer as he is affected by this defense program, and as he is affected by the priorities situation. This committee is particularly interested in any measures that the Federal Reserve Board has taken to help meet this situation in the form of credit and things of that kind, to the little man, so that he will have an opportunity to function in this program, and after it is over, principally. That is what we are more interested in than anything else, and we would like to have your views on the subject, and also any information that you care to give us about what the Federal Reserve Board has in mind for meeting that situation.

Mr. ECCLES. The Federal Reserve has done practically nothing and is not in a position to do anything to meet it.

Senator CONNALLY. Mr. Eccles, let me ask you right there, of course, you don't make direct loans at all, do you? What is the power you are given here in the last few years to make direct loans?

Mr. ECCLES. In 1934 the Federal Reserve banks were given authority to make direct loans under what is known as section 13b of the Federal Reserve Act.

Senator CONNALLY. Those purposes were limited, though, weren't they?

Mr. ECCLES. They are very limited.

Senator CONNALLY. What were the purposes?

Senator MEAD. Working capital.

Mr. ECCLES. For purposes of working capital, and the limitation was for a period of 5 years. The funds were 50 percent out of the surplus of the Reserve banks themselves. In 1934 Congress appropriated \$139,000,000 of the surplus. The Federal Reserve banks were required to invest \$139,000,000 of their surplus in the stock of the Federal Deposit Insurance Corporation. Later, at the instigation of Governor Black, Congress set aside \$139,000,000 of the gold increment at the time of the devaluation, and authorized the Federal Reserve banks to make loans in accordance with section 13b of that \$139,000,000. They gave the Treasury certain powers of regulation, however, and they made some pretty rigid regulations, which, together with the legislation, have acted as quite a deterrent.

The R. F. C., on the other hand, who have been making these direct loans, received an appropriation from Congress in the form of substantial capital and were given very much more liberal powers in making direct loans.

I feel quite sure that there will be very little credit extended by the Reserve banks under the present provision.

The CHAIRMAN. I knew that was the case and I wasn't thinking about that, but isn't the policy of the whole banking structure of the country affected by the policy and feeling of the Federal Reserve Board itself? They do what you tell them, don't they, principally?

Mr. ECCLES. I don't think they are affected by the policy of the Reserve System at all. As a matter of fact, the only type of policy that we could exercise is fixing the discount rate, and that is very, very low, and it is noneffective because no bank borrows, or open market

operation, which means the purchasing of Government securities in the open market, which gives to the banks excess reserves. We haven't done that for a long while because they have had a superabundance of excess reserves.

The change of reserve requirements which would tend to reduce the excess reserves they have, the power remaining in the Reserve System, is almost negligible in regard to that, so that the Reserve System, to do anything about the whole credit and banking structure today, is, for all practical purposes, impotent, and we have called the attention of Congress to that situation in the report of the Board in 1938 and in a statement which the Reserve System sent to Congress at the end of last year.

So far as the situation is concerned, the monetary and the credit picture today, the Reserve System disclaims any responsibility for either credit or inflationary results that might develop.

Senator MEAD. Of course, Mr. Chairman, I am very much interested in my pending bills that are before the Banking and Currency Committee to liberalize the section of the law that you just mentioned,¹ and I would like to have some comment from you with reference to the results of that liberalization on the defense program.

Mr. ECCLES. I believe there is greater need today than at any time in the past for utilizing the manpower and the productive facilities that may be used, either in whole or in part, and to the extent that capital or credit is the element required to get that production, certainly there should be no stone left unturned to meet that requirement. In the past we were interested in helping the little fellow, not in providing goods for the market, because we had a superabundance of production in goods of all kinds. The fact that certain businesses didn't get credit and didn't produce goods and went broke didn't deprive the consumer of an opportunity to purchase whatever he wanted to buy if he had the money. We all know it has been a lack of consumer buying power and not a lack of goods available to the market, and the greatest objection to assisting small business in providing adequate credit on liberal terms was that it was not necessarily in the public interest to do so, it was in the interest primarily of the little businessman, because the public was not deprived of goods because some little business could not produce the goods and could not get the credit. You have a very different situation today. Today, it isn't the small businessman that we are interested in; we are today interested in the American public. We are interested in getting both defense and civilian goods in as great a volume as it is possible to get them.

Therefore, the primary interest today is to secure a maximum production of goods, not only for defense, but for civilian requirements. One of the best means of meeting an inflationary situation—and it is only one, however—is to increase production whenever it is possible to do so. If there are plants that are not fully utilized, if there is manpower, if there are skilled workmen, or if there is competent management available and there is a lack of funds in order to utilize those resources of plant facilities and manpower and labor, then certainly we are pretty derelict if we can't find ways and means of meeting that without regard to its credit status.

¹ S. 877, a bill to amend section 13 (b) of the Federal Reserve Act.

I was interested in reading this the other day from the London Economist: "In the fullest sense, the role of finance in war is to insure that nothing is ever decided on financial grounds."

Now, certainly we don't measure whether we can afford a battleship or a plane or an army. We don't say, "Where can we get the money?" We have learned that wealth is manpower and productive facilities and raw materials, and we have learned from Hitler that the ability to protect or to provide a defense mechanism, or to provide civilian supply, is measured by your manpower, your productive facilities, and your raw material, and that money is the handmaiden that is created, it is a mechanism, and it is not in itself wealth.

It seems to me that we ought to have that as a background in our consideration of how we are going to utilize small-plant facilities, and not think so much in terms of how they are going to pay it back as in terms of what can they produce of value that otherwise could not and would not be produced. What can they add to the total wealth production of the Nation at this time?

Direct contracts are let largely to the larger concerns who are able to finance themselves, and to the extent they can't, very large advances are made by, I understand, the Navy up to 30 percent—I don't know whether that is true of the Army or not, and, of course, we know that plants are being built by the R. F. C. for the Government and leased to concerns to operate; loans equal to, in some instances, I suppose, 100 percent of the cost of additions are also made.

To the extent that we have plants that are idle, or partially idle, or plants that are working only 12 hours that could be working 24 hours, to the extent that we can use plants that will not be able to produce civilian supplies for some of the reasons that Mr. Henderson stated, and switch them over to defense, we would thus avoid the building of new plants; we would lessen, in other words, the amount of new construction that otherwise may be required; we would reduce the dislocation throughout the country that does cause very great housing problems in some areas, with possibly surplus housing in others. The economic dislocation should be lessened to whatever extent it is possible to do so if we are going to meet in any reasonable way at all the post-defense problem. We certainly don't want to start out here thinking that defense is an end in itself. The defense program is a means to an end, and the end is the preservation of our democratic way of life, and if, in trying to secure the end, which is preserving the democratic way of life, we destroy it through the means we choose, we will have been very shortsighted.

The CHAIRMAN. That is what this committee is trying to find—ways so that won't happen.

Mr. ECCLES. I merely wanted to philosophize a little on this whole general problem and not think of the financing in the sense that the private banker, that the individual businessman, must think of it. Only government can undertake a great defense program, and only government can undertake the financing of that kind of a program.

Senator CONNALLY. Mr. Eccles, I assume that Senator Mead had in mind particularly activities of the Federal Reserve bank in making loans to these smaller concerns, or bigger ones, for that matter. Isn't it true, however, that that would be a diversion from the philosophy of the Federal Reserve bank? You are not created for the purpose of

making direct loans. You are a Reserve bank, to take care of the financing of other institutions. Now, since the R. F. C. is making these loans, wouldn't it be a mistake to set up another competing agency with the R. F. C.? Wouldn't it be unwise to decentralize that control? Wouldn't it be better to leave it with the R. F. C. and the plant management, or whatever they call that corporation?

Mr. ECCLES. The Federal Reserve, when it was set up in the beginning, of course, was a bank to discount for member banks, the place where they carried their reserve. Over the period of years there have been very great changes in the whole central banking mechanism, and the Federal Reserve, due to the fact that it has its offices and its branches throughout the country, and due to its close relationship to the business community and the bankers in each district, in my opinion, is organized on a much better basis than the R. F. C. or any other governmental agency to do this sort of thing. The Federal Reserve in the beginning was given the idea of making direct loans originating in the Reserve System, and it was not until or almost concurrently with the effort of Governor Black to get this legislation that the R. F. C. undertook to do likewise. They are the ones that somewhat undertook to parallel.

Senator CONNALLY. That may be; but you are not making direct loans, you say?

Mr. ECCLES. Yes; we are continuing to make them.

Senator CONNALLY. I thought you said at the beginning they haven't done much about it; they weren't in position to.

Mr. ECCLES. They haven't done much. It has been a limited amount in line with the present legislation, which is legislation that was passed in 1934. A year ago I testified rather extensively on this bill of Senator Mead's and suggested at that time that the present power given to the Reserve System be repealed and that the whole direct lending that they were doing, the outstanding loans, be liquidated; either that be the case, or the law be modified in line with the suggested legislation. Nothing has been done, either by way of repealing it or by way of modifying it, and I certainly would like to see the one or the other done. It is up to Congress to say whether they are going to do it or not.

I still feel the Federal Reserve System, due to the defense contract service which has been set up with the O. P. M., is in a much closer contact with the small businessman than anyone in the country today, and what we do in most instances is to take the matter up or assist in taking the matter up with the R. F. C. I believe that it might be helpful if this power, as proposed by Senator Mead's bill, were given to the Reserve banks. I think through the relationship that is established with the defense contract service it would be a facility in the field that would help to provide to some extent credit more directly, more adequately, and with greater facility to small business concerns.

Senator CONNALLY. Why can't these small business concerns go to the member banks and borrow the money and you discount the paper? Why do you want to do the direct loaning?

Mr. ECCLES. No member bank is going to loan the money.

Senator CONNALLY. Why?

Mr. ECCLES. Because they are not going to assume the losses that might be involved in connection with that.

Senator CONNALLY. Well, if they have got a sound concern they make loans to them. Your idea is that you are going to make these loans and take a lot of losses, absorb a lot of losses.

Mr. ECCLES. I think that is a secondary consideration in a defense program.

Senator CONNALLY. It seems to me that the R. F. C. has this whole program under its control; it knows what industries ought to be stimulated; it is here consulting with the War and Navy Departments, and I don't think it would be wise to set up 12 competing agencies throughout the United States, advising in advance that they are going to loan people money without any expectation of getting it back.

Mr. ECCLES. They don't advise in advance.

Senator CONNALLY. You just said so.

Mr. ECCLES. What I said was this: That the Federal Reserve System is willing to discount paper for member banks, but the member bank endorses and guarantees the paper.

Senator CONNALLY. Certainly.

Mr. ECCLES. The member banks don't need to discount the paper at all. The member banks have adequate funds; they have excess funds today; the member banks are private institutions and, of course, will make loans on strictly a banking basis, and if it is the desire of Congress to provide no credit except credit that may be provided on that basis, then it may well be that you can have idle plants and idle facilities.

Senator CONNALLY. Under the R. F. C. they have already loaned \$1,800,000,000.

Mr. ECCLES. But practically all those loans are to big business on primary contracts and are not loans to little business.

Senator CONNALLY. The little business could get it if it made a case. The R. F. C. would loan it the money. My point is I don't want to see the Federal Reserve System degenerated from its original concept and made a private banking system, making these direct loans all over the country. Of course, every agency wants all the power and authority it can get.

Mr. ECCLES. We don't want to get power. As far as I am concerned, I would like to see Congress repeal the existing legislation and liquidate the thing, but I do say this: If they don't want to do that, they should improve the present section 13b if they want to use the facilities of the Reserve System in connection with this credit expansion as a part of their contract facility service which has been set up with the O. P. M.—at the request of O. P. M. a year ago we set this service up—and I might indicate to you here some of the responsibilities. At the request of the Secretary of War, the Federal Reserve banks and branches, since March 11, 1941, have been making available to district and division contracting offices of the Engineer Corps, confidential information regarding the financial condition, management, and reputation of contractors being considered for construction projects. At the request of the Under Secretary of War, the Federal Reserve and its branches, since June 31, 1941, have been making available to the contracting officers of the supply arms and services of the War Department information regarding the financial condition, management, and reputation of contractors who are

requesting advance payments on defense contracts, in order to enable the Under Secretary of War to pass upon such requests without further investigation.

Senator CONNALLY. That is all fine.

Mr. ECCLES. At the request of the Acting Secretary of the Navy, the Federal Reserve bank and its branches since July 18, 1941, have been making available to the inspector of naval materials, supervisors of shipbuilding, and commandants of the naval districts, confidential information regarding the financial condition and the reputation of ship repair and shipbuilding yards to which the Navy is considering awarding contracts.

The point I make is this: That in each of the Reserve banks and branches, they are more and more tied into the defense-contract service which was established to assist the small business concerns in each Federal Reserve bank district to get defense contracts, either directly or indirectly through subcontracts, and to avoid the bottleneck of their coming into Washington; to act as a two-way service: First, to undertake to supply the O. P. M. and the Army and Navy information with reference to available facilities in each district; secondly, to supply to the business concerns in the district information with reference to the requirements of the Army or the Navy and also of the large contractors.

A pretty extensive organization has been set up in each bank. A portion of that organization is set up and is under the O. P. M. A portion of it is under the Reserve System, and there is a coordination of the Reserve staff and the O. P. M. staff and the banks, so that in many cases it is found that financing of these small concerns is necessary and it seems to me it would facilitate matters if the Reserve banks could, at the same time they are working with the O. P. M. people in connection with this field of activity, instead of advising with reference to the financial status only, be in position to make recommendations and supply the credit directly themselves as a part of the program.

I don't think that that is a matter of competition necessarily with the R. F. C. The R. F. C.'s principal activity today is in connection with the very large financing, the building of plants, the buying of the strategic materials, the financing of railroads. The great bulk of their business is in large financing. What we are thinking of in connection with the financing of small business is loans of a million dollars or less. It is not large financing that has to be centralized in Washington that proves to be somewhat of a bottleneck. It would be decentralized through thirty-some-odd offices. The R. F. C.'s financing is pretty largely centralized here.

Senator CONNALLY. They have offices all over the country.

Mr. ECCLES. That is right. Most of their offices are right in the Reserve banks.

Senator CONNALLY. They have as many offices, then, as the banks have.

Mr. ECCLES. Yes; but I think most of the loans have to be cleared through Washington.

Senator CONNALLY. Finally, yes.

Mr. ECCLES. Very little authority is given.

Senator CONNALLY. They have to come here to be approved. In my State, in Texas, I know they have four or five offices.

Mr. ECCLES. In our situation, in each of the Reserve banks these loans would be approved there and not here at all; they would handle loans; they would be made and approved there, because they have a complete organization, the bank's directors, businessmen, bankers, and in addition to that they have a credit department that has been pretty largely inactive for quite a number of years, due to the fact that there has been practically no borrowing by the banks from the Reserve bank, so that they could have the facilities to handle this field and it would not be duplicating and it would not be a matter of competition with the R. F. C. It would not require an appropriation of Congress. There is this \$139,000,000—at least \$112,000,000 of that has not been used—of earmarked gold, gold set aside in the Treasury that cannot be used by the Treasury, and it could be made available for this purpose. Certainly, if it isn't going to be made available for this purpose it should be made available to the Treasury to use in connection with its regular expenditures.

Senator HATCH. May I interrupt, Mr. Eccles, for a moment. From what you have said, I judge that under existing legislation, there is no adequate way by which the Federal Reserve System can participate in this program.

Mr. ECCLES. That is correct.

Senator HATCH. There is nothing it can do for small business as the matter stands today.

Mr. ECCLES. That is correct. It has been suggested that the Reserve System would use its own capital, its own funds to make these loans. Of course, if this 139 million hadn't been taken away from it, it would have surplus enough to justify taking the amount of risk involved in this sort of thing, but with its limited capital and surplus today, it certainly isn't justified in doing so, and it wouldn't do so. All it is requesting here is the funds that were taken away from it be returned to be used for this purpose.

The other Government agencies, the R. F. C. and others that are in the lending field, of course, had funds made available to assume risk. The H. O. L. C. is a case in point. Congress appropriated large capital for them to make mortgage loans that private capital couldn't make, and it was assumed they may lose that capital, or a substantial part of it. The Farm Credit Administration had \$2,000,000,000 made available through the Farm Mortgage Corporation to help the land banks out on the assumption that they would lose some of it. No money has ever been made available by the Government to the Federal Reserve System. Congress has never appropriated a dollar for that purpose.

Senator CONNALLY. The Government doesn't own that agency. These other agencies are direct agencies of the Government.

Mr. ECCLES. But the Government controls the Federal Reserve System.

Senator CONNALLY. It controls it, but it doesn't own it, and if you get money and dish it out and lose it, the Government loses that. You want to loan the Government's money. You don't have your own money.

Mr. ECCLES. That is true of every agency. Every agency loans money appropriated by Congress if it assumes a risk, and if they want the Federal Reserve to perform this service, then certainly they are not, I am sure, going to do it out of their present limited capital and surplus. Only by making available these funds—which was the original idea in 1934—will they engage in this sort of lending, and if Congress doesn't want to do that, certainly there isn't anything we can do in the situation at all. We just don't want to have any responsibility without having authority to do something about it. I believe we could be helpful. It is up to Congress to say whether or not they want us to be.

I didn't come up here at my own request. I knew nothing about what I was coming for.

The CHAIRMAN. You came at the request of Senator Mead who wanted to ask you that question, and he did. We thank you for coming and I appreciate very much the information you have given us.

The committee will recess until next Tuesday when it will go into some further matters in connection with camps and machinery contracts, and the witnesses will be announced later.

(Whereupon, at 1:25 p. m., an adjournment was taken until Tuesday, July 29, 1941.)

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

TUESDAY, JULY 29, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE
THE NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Tuesday, July 29, 1941, in room 318, Senate Office Building, Senator Harry S. Truman, presiding.

Present: Senators Harry S. Truman, chairman, and Ralph O. Brewster.

Also present: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order.

I want to make a preliminary statement here for release.

Extensive hearings covering all phases of the huge national defense housing program are scheduled to be held soon by the Senate Committee Investigating National Defense.

Complaints of excessive building costs, improper location of housing sites, faulty construction, and unduly high prices paid for land acquisition have already been received by the committee. These complaints, together with others expected to be brought to the committee's attention, are being carefully investigated. If the taxpayer isn't getting his money's worth on defense housing, we are going to find out why he isn't, and we will go after that as soon as we get through with the program we now have in view.

Captain Richardson will be the first witness.

Captain Richardson, will you be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Captain RICHARDSON. I do.

TESTIMONY OF ROBERT L. RICHARDSON, CAPTAIN, QUARTERMASTER CORPS, CHIEF OF EQUIPMENT UNIT, PURCHASE AND EXPEDITING SECTION, WASHINGTON, D. C.

The CHAIRMAN. State your name and your connections for the benefit of the reporter, please.

Captain Richardson. Robert L. Richardson, captain, Quartermaster Corps, Chief of Equipment Unit, Purchase and Expediting Section.

The CHAIRMAN. Mr. Fulton, will you proceed with the examination, please?

Mr. FULTON. Captain Richardson, I understand that you are in the Quartermaster Corps of the Army.

Captain RICHARDSON. That is correct, sir.

Mr. FULTON. And that you were in charge of supervising this program of renting equipment for use in the Army camp construction, and also in ordnance plant construction.

Captain RICHARDSON. That is correct. My policies were set up by my office and approved by my commanding officer.

Mr. FULTON. Would you tell us something of your past experience and connections before you came with the Army?

Captain RICHARDSON. I became an employee in the Army as of September 10, last year, from civilian life. Prior to that time I was with the Building Supplies Corporation, handling their machinery department; also estimating for them; with the Taylor-Parker Co. in Norfolk, Va., handling their machinery department on Government sales particularly; later with Phillips Machinery Co. and also with that connection designing and selling of construction equipment for the Manitowoc Shipbuilding & Engineering Co.

The CHAIRMAN. Did you ever buy machinery for the Government or for any corporation?

Captain RICHARDSON. I bought it for the corporation, sir, but not for the Government.

The CHAIRMAN. Your principal business has been the selling of machines?

Captain RICHARDSON. Selling and designing of machinery; yes, sir.

Mr. FULTON. And by selling machinery, you mean selling to these persons who are now the principal renters of equipment?

Captain RICHARDSON. No, sir; most of it was to the Government direct.

Mr. FULTON. To the Government direct?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. When you came with the Government you severed all connection with your old association?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. You understand we have been presented with this problem: To get anybody who knew anything about it, they have been identified with private interests.

Captain RICHARDSON. I don't mind any investigation of my past, sir.

Senator BREWSTER. I am only pointing out to you the problem always arises.

Captain RICHARDSON. That was quite well explained to me by General Hartman when I came in. I think I took quite a reduction in salary to come in the Army to be of any help I could.

Senator BREWSTER. Did you have any other interests besides your salary in these companies?

Captain RICHARDSON. No, sir.

Senator BREWSTER. You never had any stock in them?

Captain RICHARDSON. I hold no stock in any machinery company, sir.

Senator BREWSTER. You realize that in any departures which you make from the previously accepted practice in private industry does

require pretty good explanation on your part as to why the Government got a better deal.

Captain RICHARDSON. Quite correct, sir.

Senator BREWSTER. You realize that question has been raised here, and you are prepared to go into that pretty thoroughly?

Captain RICHARDSON. I think I can go into it as thoroughly as anyone wants.

Mr. FULTON. Do you expect to remain in the Army during the defense program or go back to civilian life.

Captain RICHARDSON. I am only a Reserve officer and it would be according to the wants or needs of the Army and the discretion of my commanding officer. I have an extension of duty of 1 year to September 1942. After that I imagine, unless there is an emergency, I will be a civilian again.

Mr. FULTON. And would return to the sale of equipment?

Captain RICHARDSON. I expect now, sir—my father is a contractor and has no contracts with the Army but with the Navy—to go back with his construction company.

WAR DEPARTMENT RENTAL SCHEDULE FOR EQUIPMENT

Mr. FULTON. Would you tell us what the status of the Equipment Rental Section of the Quartermaster Corps was when you came into the Army on September 10, 1940? What plans did they have for the rental of equipment?

Captain RICHARDSON. I was appointed a captain on August 19, if I am not mistaken, and was called to active duty on the 10th of September. I reported to the Quartermaster General's office and was told that I would have the Mechanical Equipment Section. At that time there was a rental schedule which is known as the Contractors' Equipment Rental Schedule, that had been drawn, I think, by Mr. Harry Loving and some of his associates in the Quartermaster Corps. That schedule is dated July 1940.

Mr. FULTON. In addition to that schedule, what had the War Department prepared to handle this equipment situation?

Captain RICHARDSON. There was no rental agreement for third-party equipment. It called for a form to be approved by the Secretary of War for the rental of all third-party equipment, meaning third-party lessors.

Mr. FULTON. And what kind of an organization had been set up?

Captain RICHARDSON. There was no organization at that time, that is according to my knowledge.

Mr. FULTON. And on September 10 they had this schedule and a form of contract, and nothing else?

Captain RICHARDSON. We didn't have the form of contract. They had this schedule in rough form. I then proceeded to have it printed immediately by the Government Printing Office, and with the help of the Legal Section we worked up the original rental schedule for third-party equipment.

Mr. FULTON. What information did they have on the quantities of equipment that were available or on the rental prices that had been charged?

Captain RICHARDSON. On the rental prices that had been charged, the Civil Engineering Section and Purchase and Expediting had, of

course, a variance of prices; they would vary all over the United States, according to local conditions and the type of work to be performed. They didn't have at that particular time the equipment that was available for rental.

Mr. FULTON. Did they have a list of the equipment, whether it was available for rental or not?

Captain RICHARDSON. No; they didn't. I circularized all contractors and all dealers, requesting them to send me a list of equipment they had available for immediate rental at that particular time.

Mr. FULTON. So you started to do that work which you regarded as basic?

Captain RICHARDSON. That is correct, sir. That was my idea of assembling the equipment so that when the camps started we could give them 8 or 10 names of the different machinery companies or contractors that had available equipment for rental, immediately, not equipment on projects that you could get 2 months from now.

Mr. FULTON. And how many weeks did it take to gather that information?

Captain RICHARDSON. It took approximately 2½ weeks to gather that complete file. We have, of course, since then had lists coming out any time we can find anyone that has equipment. If we hear of it, we write to them, get a list of it, see that it is available for rental and also for inspection prior to renting.

Mr. FULTON. And that would mean by the 1st of October you had lists of equipment and names of the owners and where it was available?

Captain RICHARDSON. We had the list of all dealers. That was obtained from the Engineering Section, Civil Engineering Section of the Quartermaster Corps; but I am speaking now mainly of the contractors' list they had from the Turnpike and Shasta Dam and any job of that size where you would find large earth-moving equipment.

RECAPTURE OF RENTED EQUIPMENT BY THE GOVERNMENT

Mr. FULTON. How many million dollars of equipment has the Government rented during this program?

Captain RICHARDSON. I would say roughly—I think you have the exact figure—eighty-five-million-some-odd-thousand dollars. That was of June 1.

The CHAIRMAN. That is the purchase value of the equipment?

Captain RICHARDSON. That is correct, that is the value of the equipment rented.

Mr. FULTON. That is the so-called recapture value that you set up, isn't it?

Captain RICHARDSON. It wasn't set up. That is the recapture value that was bid to us.

Mr. FULTON. Do you regard that as the true value of the machinery?

Captain RICHARDSON. In most instances, yes. You may find an isolated case where it is in excess.

Mr. FULTON. Or, in fact, a good many cases where that is in excess; isn't that true?

Captain RICHARDSON. I should imagine in renting the amount and number of items of equipment that were rented, particularly of

specialized equipment where we had to have it to finish any project on schedule——

Mr. FULTON (interposing). How much rental has the Government paid for that \$85,000,000 worth of equipment?

Captain RICHARDSON. I think you have it there—37 million, isn't it, and some odd thousand?

Senator BREWSTER. Thirty-six million.

Captain RICHARDSON. Thirty-six million.

Mr. FULTON. That is a very substantial portion of this value even as claimed by the contractors for recapture purposes, is it not?

Captain RICHARDSON. You also have, I think, the recapture as of June 1, and I think I have requested to supplement that report as of July 1 due to the fact that the report that I made contained every project that we have from purchase and hire ordnance plants and Army camps. One specific camp that I brought to your attention was Fort Knox which shows no equipment recaptured as of June 1, but as of June 30 there was \$154,000 in equipment recaptured. Also we had transferred from the camp jobs, retaining the Government's equity, to ordnance plants, to purchase and hire jobs, this amount of equipment which was then being recaptured by the ordnance plant with the consent of the lessor.

Mr. FULTON. How much of this equipment do you estimate will be recaptured?

Captain RICHARDSON. I would say by the last of August \$40,000,000 in equipment.

The CHAIRMAN. When did you first begin to make an energetic effort to recapture this equipment; after we started this investigation?

Captain RICHARDSON. No, sir; it was made the minute it was available from any Army camp.

The CHAIRMAN. I notice specific instances where much of this equipment was turned loose, and it was right up to the point where it was at a value that could be recaptured, and then an effort has been made to go back and recapture some of that equipment.

Captain RICHARDSON. Sir, our basic contract or the principal contract is phrased and so written that we cannot recapture construction equipment until the rental has equaled 100 percent, plus 1 percent a month.

The CHAIRMAN. That is 100 percent of its retail value?

Captain RICHARDSON. That is correct.

The CHAIRMAN. Why don't you try to recapture it at wholesale value?

Captain RICHARDSON. It doesn't say retail value; it says 100 percent of value.

The CHAIRMAN. What is 100 percent of value; is it the cost plus a profit added by someone who has gone into business for the purpose, or is the value what it costs to bring it out of the factory?

Captain RICHARDSON. I would like to finish this contract, if you don't mind, and then I will answer your other question. It also states at the completion of the contract, or the termination of the principal contract, we can then recapture. Prior to that, we had to get the consent of the third party lessor or the contractor to recapture equipment. We had to get our rental equipment according to the basic contract.

We couldn't put anything in there that would offset the wording of the basic contract.

Mr. FULTON. Do you know why the basic contract was so written that the Government couldn't recapture equipment on which it had paid, say, 90 percent of value?

Captain RICHARDSON. No, sir. The basic contract was written prior to my being in the Army. I couldn't answer that question; I wouldn't know.

Mr. FULTON. So far as you were concerned, you had to deal with it as it was written.

Captain RICHARDSON. I had to deal with it as it was written.

Senator BREWSTER. Did you consider that disadvantageous to the Government?

Captain RICHARDSON. In some cases; yes, sir. Immediately after the rental of equipment—we have files to substantiate it—I wrote to every machinery dealer and every contractor I was renting equipment from and asked their permission to transfer the equipment with Government equity or let us recapture it at the completion of that particular work that that machine was working on; for instance, if it was working on grading and was finished 90 days prior to the termination of the principal contract, to allow us to do it. They were very cooperative in many instances; in some instances, not.

Senator BREWSTER. Hasn't it been thought better to have a right to recapture if you paid over 60 percent?

Captain RICHARDSON. I should think so, which we have now in our new rental agreement. We still can't recapture until the termination of the principal contract or the 100 percent has been reached, but we do now reserve the right to transfer which we didn't have before.

Senator BREWSTER. You mean from one job to another?

Captain RICHARDSON. That is correct.

Senator BREWSTER. In other words, if you were on one job that wasn't applied on another job?

Captain RICHARDSON. No, sir; that was applied to the other job. In other words, we used the same rental contract from one job to another.

Senator BREWSTER. We have had the criticism—I know it has been voiced—that by transferring equipment from one job to another they avoided this. Was that not possible?

Captain RICHARDSON. It may have been done in some isolated instances. I couldn't answer that.

Senator BREWSTER. Was it legally possible?

Captain RICHARDSON. When we release the equipment—speaking of the Quartermaster Corps—and return it to the owner, there is no way in the world we can retain the equity, according to the basic contract.

Senator BREWSTER. At Blanding the contractor insisted he had the right to take it out, and there was quite a rumpus as to whether he should remove it. At one stage the Government quartermaster impounded it when he took over in the spring. Are you familiar with that?

Captain RICHARDSON. You are speaking particularly of trucks; is that correct?

Senator BREWSTER. I think so.

Captain RICHARDSON. I can assure you the trucks at Blanding were recaptured not only for the Quartermaster Corps but for W. P. A. and also the Public Health Service who have the mosquito control through Florida.

Senator BREWSTER. The contractor did claim the right to take that away. Didn't they have quite a fuss?

Captain RICHARDSON. He claimed it, but he didn't take it. W. P. A. had suballotted funds to us, and the Public Works Administration and Public Health Service had suballotted funds under 1080 form to the Quartermaster Corps to hold that equipment as needed in future projects, having no priority to get it. So we did look out for the Government very well in Blanding.

Mr. FULTON. That means at Blanding you paid a rental up to 100 percent of the contractor's agreed recapture value and thereby obtained the equipment?

Captain RICHARDSON. That is correct, sir.

Mr. FULTON. But as I understand Senator Brewster's question, it related to those instances in which there was no right to recapture because the rental, although a large part of the total value, was not 100 percent. In such instances, the equipment could be released and if subsequently hired on a Government job or private job might earn further rental so that ultimately the owner of the equipment might obtain a rental considerably in excess of his own idea of recapture value.

Captain RICHARDSON. Mr. Fulton, we have no authority that I know of to control a man's personal property after we have released it. I don't know that this Government has it, or anyone else. If we release it, according to our contract, we have no further equity in it.

Mr. FULTON. And you do not keep a record of the serial numbers, say, of the motor or engine on a crane so as to know on a later Government job whether that was used on an earlier Government job and released?

Captain RICHARDSON. What would you do with it if you kept it? He doesn't have to rent it to you. If you won't accept his value and moderate it, what good would it do?

QUESTION OF PURCHASE OF EQUIPMENT BY GOVERNMENT

Mr. FULTON. It might indicate it would be desirable to keep a record and perhaps buy some of the cranes yourself instead of renting them for more than they are worth.

Captain RICHARDSON. Buy them how? How do you mean?

Mr. FULTON. I mean by that that according to the figures you have given us here, the Government is paying a very substantial portion of the total value of this equipment anyway.

Captain RICHARDSON. What I tried to explain is that the June 1 report isn't a true picture of the machinery problem. I told you that long before the hearing.

Mr. FULTON. You stated that the report showing you had only recaptured 10 percent would not be true because during recent weeks you had been recapturing a great deal of this equipment and you expected

to recapture more. But even at the end of this you don't intend to recapture more than a fraction of this quipment, do you?

Captain RICHARDSON. What fraction are you speaking of? Let's talk percentages.

Mr. FULTON. You spoke of less than half.

Captain RICHARDSON. That is of August 1. We still have ordnance plants that won't be completed until possibly September of 1942 which need equipment; the minute we own it and it is available, it will then be placed on those particular plants that are not completed, and rental equipment we are paying for will either be recaptured for future maintenance or we will get rid of all the old equipment on these projects.

Mr. FULTON. How much do you expect to recapture ultimately—what fraction of the equipment?

Captain RICHARDSON. It has to be a guess. That is the only thing I can tell you.

Mr. FULTON. It is going to run into a sizeable fraction, isn't it?

Captain RICHARDSON. I would say 75 percent of the equipment.

Mr. FULTON. If you are going to recapture 75 percent of the equipment, why don't you buy it instead of renting it on this price schedule and at recapture values that are in excess of what the Government can buy the equipment for?

Captain RICHARDSON. If you will inspect the records of the ordnance plants as they were set up, you will find that the equipment was bought, except for specialty equipment that would be of no use to the Army later on. We have to get rid of equipment once we have it.

Mr. FULTON. A great deal of this equipment you are recapturing is ordinary dump trucks and ordinary tractors and things of that kind.

Captain RICHARDSON. Let's speak of tractors in their sizes. A tractor could be used for future maintenance of a station, but you wouldn't want an HD-14 130 hp. tractor for maintenance. It would be a loss to the Government to be sitting there for maintenance purposes.

Mr. FULTON. Suppose we take an ordinary International truck, 11½ ton, quite a common vehicle.

Captain RICHARDSON. That would be used for maintenance anywhere.

Mr. FULTON. The Government can buy that for a lot less than these recapture values, can it not?

Captain RICHARDSON. Through the Motor Transport Division; yes.

Mr. FULTON. What is the reason that the Government should rent those things and then recapture them at prices considerably in excess of what it could go out and buy them for itself?

Captain RICHARDSON. The original camp jobs were set up for 90 to 120 days. We needed at that particular time approximately \$60,000,000 in equipment, that is my guess, maybe 50. In the first place, your manufacturers were so loaded down with ordnance work that they couldn't produce them unless you drew from dealers stocks that had been stocked up all over the country.

Mr. FULTON. At least on that point—

Captain RICHARDSON. May I finish, please?

Mr. FULTON. Let's take up that point you raised because I took it up with you yesterday and I thought I satisfied you on it. If the

manufacturer couldn't produce it, he couldn't produce it for sale to an equipment renter any easier than he could produce it for sale to the Government, could he?

Captain RICHARDSON. Mr. Fulton, did you make a survey of the equipment that was available at the start of this project with distributors?

Mr. FULTON. Would you please answer that question?

Captain RICHARDSON. I am explaining it to you.

Mr. FULTON. The Government could buy it just as easily as an equipment renter could buy it, isn't that true?

Captain RICHARDSON. Yes; if Motor Transport weren't loaded down with buying all the mechanized units they certainly could under ordinary circumstances. But they couldn't expedite it fast enough to build fixed-fee camps.

Mr. FULTON. You mean by that the Army wasn't able to place orders for the purchase of ordinary trucks and therefore had to get private people to purchase them.

Captain RICHARDSON. They were buying about 20,000 special units at that time. That wants to be taken into consideration, not just the idea that the Army couldn't do it.

Mr. FULTON. It is your position that it is easier for the Government to enter into contracts, dozens of them, with private persons, for them to go out and buy these trucks privately, than it would be for the Army to go directly and buy the trucks from the manufacturer?

Captain RICHARDSON. To satisfy yourself, Mr. Fulton, I would like for you to make a survey of the trucking companies today and see what is the best delivery you can get with an A-1-A priority on trucks.

Mr. FULTON. And the question I asked was specifically whether you think that the Army couldn't more easily have bought those trucks than go out and make dozens of contracts with private people.

Captain RICHARDSON. The Army at that time had no way of knowing the number of trucks that were necessary, or anyone else.

Senator BREWSTER. How did they lease them if they didn't know what they had to have?

Captain RICHARDSON. They were leased on the project after they found the number of cars of lumber of necessary material that could come in to be unloaded.

Senator BREWSTER. You in substance say it was easier for the Government to rent than it was to buy.

Captain RICHARDSON. Yes, sir. They could expedite it faster; they could get deliveries from dealers, and you gentlemen wanted us to build camps in a hurry.

Senator BREWSTER. That, of course, seems rather extraordinary, but I presume your difficulties—

Captain RICHARDSON (interposing). If the Army had known we would have a program this long and would have 2 years to build the camps instead of 90 days, so it would be the ordinary 2-year lump-sum job, we could then anticipate everything.

EQUIPMENT RENTAL CONTRACTS

Senator BREWSTER. As I understand, you do say in the contracts now you specifically provide for transfer so there can be no danger of abuses along that line.

Captain RICHARDSON. That is correct. I would like to submit this, and I think I have submitted the rental agreement as revised.

The CHAIRMAN. That will go in the record as an exhibit.

(The document referred to was marked "Exhibit No. 90" and is included in the appendix on p. 1881.)

Senator BREWSTER. Aren't there a few concerns that make quite a business of renting equipment?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. How many of the big ones?

Captain RICHARDSON. I would say, sir, 85 percent of the machinery companies today would rent equipment.

Senator BREWSTER. You mean the manufacturers?

Captain RICHARDSON. No, sir; they are all dealers and distributors.

Senator BREWSTER. Now these large concerns that have rented equipment very generally to the Government, they also rent to private contractors doing public work and other business?

Captain RICHARDSON. That is correct.

Senator BREWSTER. Have you looked into their profits this year at all?

Captain RICHARDSON. No, sir. I don't think it is up to me entirely as a person or as a unit to look into their profits, sir. I don't see where we can tell them what they can rent equipment for. It is their property.

Senator BREWSTER. Of course, the impression the layman in the street has had—we have been familiar with the provisions of the people who build roads, and so forth, in our State governments, and they have had certain provisions about rental. Now we have read these stories that those were revised very decidedly upward and that under the Federal arrangements, instead of taking the arrangement which existed with a great many private contractors all over the country, we had an entirely new deal, and the implication has been it was very much more advantageous. Now as an expert in that field, what is your comment on that?

Captain RICHARDSON. My comment is this, sir; that the commercial rate of rental prior to this program was 10 percent of the valuation of a piece of equipment.

Senator BREWSTER. That is per month?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. So that in 10 months they would pay the value of it?

Captain RICHARDSON. They would pay the value, that is the book value of it. That doesn't take care of any repairs that were done or anything else.

Senator BREWSTER. Wasn't it also provided after you had paid 60 percent you could then recapture?

Captain RICHARDSON. No, sir; it was explained that according to our basic contract we couldn't.

Senator BREWSTER. I am speaking of preceding this program.

The CHAIRMAN. You are speaking of State contracts.

Captain RICHARDSON. You are speaking of commercial procedure prior to the emergency.

Senator BREWSTER. Associated General Contractors.

Captain RICHARDSON. It so happened at that particular time a rental company wouldn't rent to anybody, the Government or anybody else, allowing 100 percent of the rental to apply to purchase price, and they do that for us.

Senator BREWSTER. When you say "at that particular time," the implication might be that the day after you started doing business, they changed the system of doing business. I am asking about the general arrangement before we got in the crisis.

Captain RICHARDSON. I am trying to explain to you this: In the rental of equipment prior to this program, if you were a contractor—let's make a specific example of it—and I was in the rental business and you wanted to rent a tractor, or any item of equipment you wanted to mention, and you wanted an option of purchase of this piece of equipment, I would allow you at the most 100 percent the first month, 90 percent the second month, 75 percent of the rental to apply to the purchase price on the third month. If you didn't purchase at the end of the third month you lost your equity. If you wanted to buy it was lost legally.

Senator BREWSTER. You mean after that you didn't have the right of recapture?

Captain RICHARDSON. That is correct, sir.

Senator BREWSTER. Was that the general arrangement in existence at that time?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. How long had that been so?

Captain RICHARDSON. For the 10 years I was renting equipment and selling it.

Senator BREWSTER. Have you copies of that general arrangement? Wasn't there a sort of blanket form that covered rental agreements?

Captain RICHARDSON. There was a blanket form at that particular time that came from the A. E. D. but it had to be moderated to your local conditions. Therefore, it wouldn't be a duplication.

Senator BREWSTER. What did A. E. D. stand for?

Captain RICHARDSON. Associated Equipment Dealers.

Senator BREWSTER. And they did have a general form arrangement which might be adapted to particular situations?

Captain RICHARDSON. That is correct, sir; but it had to be moderated to your own locality. That depended on your local State laws, how they were written. I am not an attorney, I don't know, but it had to be adapted to the laws of your State, and therefore it was changed. It couldn't be a standard form to be used all over the country.

Senator BREWSTER. Can you make a copy of that standard form available to us? ¹

Captain RICHARDSON. Yes, sir; I can.

Senator BREWSTER. We will appreciate it if you will do that and see that it goes into the record.

Do I understand that you felt it was no concern to you how profitable this business proved to be?

¹ Subsequently supplied and included in the appendix on p. 1941 et seq.

Captain RICHARDSON. My concern was to keep the rental rates down, not the profits the men made. I can't control their prices. We rented equipment on competitive bidding, sir.

Senator BREWSTER. How many of the big equipment concerns were there dealing with the Government?

Captain RICHARDSON. Do you want to take the equipment concerns alone and leave out the contractors and private individuals we had to rent from?

Senator BREWSTER. What percentage of your business was done with each group?

Captain RICHARDSON. That would have to be a guess.

Senator BREWSTER. Give an estimate.

Captain RICHARDSON. I would say the equipment dealers rented approximately 40 percent of the equipment. I would say the private contractors who had equipment available rented approximately the same amount. The other 20 percent would be from one or two individuals that owned the equipment.

Senator BREWSTER. Did you develop a standard form for rental?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. And then took competitive bids on that standard form?

Captain RICHARDSON. That is correct, sir. I would like to put our standard form in the record. As I stated, according to the basic contract we had to have a rental agreement approved by the Secretary of War. That has been so approved and when it was approved it was used immediately and all rentals were placed on these forms.

(The document referred to was marked "Exhibit No. 91" and is included in the appendix on p. 1886.)

Senator BREWSTER. That varied from the earlier one, as I understand it?

Captain RICHARDSON. I gave him my revised copy; the first one.

Senator BREWSTER. But that varied from the one which had been in use by the Associated Equipment Dealers hitherto?

Captain RICHARDSON. Yes, sir; because we required 100 percent of the rental to apply to the purchase price at all times, from then on, from the day it was rented to the day it was either released or recaptured.

Senator BREWSTER. From your association with the business, have you formed any impression about how advantageous this business was to the equipment dealer?

Captain RICHARDSON. The equipment dealers, like the steel companies and the lumber companies, are doing possibly the largest business they have done for years, and it should, I imagine, be very advantageous to them.

Senator BREWSTER. We had the shipping concerns here who were rather appalled at their own profits and felt that some arrangement should be made for reduction. I wondered whether that attitude had been exhibited by any of the equipment dealers.

Captain RICHARDSON. I never had a man come up and say he would take less profit, as was the case I read in the newspaper of a ship-building company.¹

¹ See supra, p. 1574.

Senator BREWSTER. That was testified here.

Captain RICHARDSON. I read that in the newspaper.

Senator BREWSTER. You haven't run into that in the case of an equipment dealer?

Captain RICHARDSON. No, sir; not so far. We have this safety factor now that we didn't have before. The contractor takes a bid for rentals on a competitive basis. Prior to the local constructing quartermaster's signing that rental agreement approved by the Government, it is forwarded to the zone constructing quartermaster. We have nine zones similar to our corps areas, decentralizing the Quartermaster General's office. We have been able to obtain in the zones competent equipment men. If the valuation seems too high they reserve the right of final inspection, and we have also reserved the right in our contract that within 10 days after the equipment is delivered to the project, if the Government doesn't agree with the valuation of the equipment, although the contractor agrees with it and the third party lessor, we have the right to change the valuation and arbitrate it, the safety factor being the zone in that instance, and reports coming in monthly from each project to my office, and if values seem too high I can still call for a supplementary agreement.

Senator BREWSTER. Who has the responsibility of maintenance under the Army contract?

Captain RICHARDSON. Under the present contract? The Army.

Senator BREWSTER. That is different from the hitherto existing arrangement?

Captain RICHARDSON. You are speaking of A. E. D.? The A. E. D. would only make service calls for minor factors. If you turned a crane over and the connecting rod was broken on your job, as a contractor you paid for it. If you left oil out of an engine and burned the bearings out, you paid for it.

Senator BREWSTER. What about ordinary maintenance?

Captain RICHARDSON. In the case of field repairs, something that a service man could run over in a pick-up truck and fix with two or three tools, they performed that service free of charge to the contractor; and they have done that for us.

Senator BREWSTER. You mean that you get the same service now that was furnished hitherto?

Captain RICHARDSON. Sir, particularly on ordnance projects where there is a lot of equipment, the dealers have insisted that the manufacturers send down to that project four or five good factory men to familiarize the operators with this equipment—this is not at the expense of the Government—and to familiarize the local mechanics with that equipment.

Senator BREWSTER. I think if the answers were a little more direct, it would be better. I am asking if the arrangement was different under the old contract than under the new. Was it or not?

Captain RICHARDSON. It was; yes.

Senator BREWSTER. You didn't make that clear in your original testimony that you had now got a 100-percent recapture clause but you haven't got other provisions that are identical. I think you should give both sides of the story so that it will be clear just what concessions you have made to the equipment renters as well as to the Government.

Captain RICHARDSON. I am trying to give you this story, that at the beginning of this program there wasn't enough rental equipment available to really start these projects. We had to rent construction equipment we didn't want to rent. Therefore, we have released some of it. And we had to rent from an individual owner who possibly had one tractor. If you waited for him to come over and make some minor repairs—for instance, a fuel injector came loose on the machine and the operator just sat there, when you could fix it for 50 cents—I don't think that is very economical.

Senator BREWSTER. I wasn't raising the question now about the wisdom of your arrangement. I was trying to determine the differences that existed.

Captain RICHARDSON. That gave us service calls on machines.

Senator BREWSTER. Just a minute. You pointed out you had a different stipulation regarding recapture.

Captain RICHARDSON. That is correct.

Senator BREWSTER. You did not point out you also made concessions to the contractor on the matter of service. Whether those were wise or whether they were important is another matter, but I think you ought in justice as a Government witness to give us both sides of the story.

Captain RICHARDSON. You asked about the recapture; you didn't ask about the other. I will be glad to compare the contracts if you like.

Senator BREWSTER. I have been trying to get you to do that.

Captain RICHARDSON. All the original contract of the Associated Equipment Dealers called for was that they would furnish minor or field repairs. That is understood. We understand the recapture portion of it.

Senator BREWSTER. Yes.

Captain RICHARDSON. It also stated you couldn't transfer it from one job to another.

Senator BREWSTER. That was in their contract?

Captain RICHARDSON. Yes.

Mr. FULTON. You didn't have the right to transfer in your contract.

Captain RICHARDSON. I didn't then. I do now. This original rental agreement of ours was drawn around an old existing War Department rental agreement, modified, that had been used on purchase and hire jobs where it was necessary to rent equipment, as the Army had very little maintenance equipment on any post. After this program we will have all the equipment we need. I can't go into the legal phraseology of the other contract. I am speaking of the practical side.

Senator BREWSTER. That is what we want.

Captain RICHARDSON. They would be the only two things of importance that should be brought up. We were in a little different category as the contractor was the lessor and it was approved by us, approved by the constructing quartermaster at the station. Now it is approved by the zone, giving that safety factor. Prior to that the contractor was the lessor and full responsible party to an A. E. D. contract, so there was no safety factor for the contractor. That is about all I can say that can be brought out as a comparison between the two schedules.

Mr. FULTON. At the time you made the survey of the existing equipment in the country, that was equipment that was then in the hands of contractors or dealers?

Captain RICHARDSON. That is correct, and individuals who had two or three items.

Mr. FULTON. Did it include new equipment that had never been used?

Captain RICHARDSON. This included only used equipment, that is all.

Mr. FULTON. How much used equipment did you find in the country that was free to work on defense projects?

Captain RICHARDSON. I have approximately—you know the Pennsylvania Turnpike had just been finished prior to this program.

Mr. FULTON. I just wanted the total amount.

Captain RICHARDSON. There was approximately \$18,000,000 that was available right then for immediate shipment. The rest of it was on projects. They said it would be free in 30 or 60 or 90 days.

Mr. FULTON. How much of that did you estimate there would be?

Captain RICHARDSON. I would say two and a half million on that.

Mr. FULTON. Two and a half million more?

Captain RICHARDSON. That is right.

Mr. FULTON. So there was around twenty-one million or less of equipment available for hire within a period of 90 or 120 days?

Captain RICHARDSON. Some of that equipment, of course, was of such an age that we didn't want to rent it unless we had to, due to its high maintenance cost.

COST OF GOVERNMENT-RENTED EQUIPMENT

Mr. FULTON. You ultimately rented through your department, the Quartermaster Corps, for the Army's camp program and for the ordnance program, about \$86,000,000 of equipment. Can you tell me how much, roughly, the Navy rented for its program?¹

Captain RICHARDSON. I would have no idea. Most of the Navy's equipment is a little different category from ours. They rented large floating equipment, tugs, derrick barges, and so on.

Mr. FULTON. But they had construction programs.

Captain RICHARDSON. They rented pumps and they rented tractors. The Navy called on me the other day to get some tractors to start a project they didn't get delivery on.

Mr. FULTON. They rented tractors and trucks and other general equipment.

Captain RICHARDSON. I would have no way of knowing because I don't know every Navy project, but I would guess roughly \$50,000,000; maybe sixty millions. That is just a rough guess, that is all.

Mr. FULTON. In any event, between the Army corps and the Navy it ran well over \$100,000,000.

Captain RICHARDSON. Well over \$100,000,000.

Mr. FULTON. Or in other words, about five times as much as the free equipment contractors or others had available, so it was perfectly obvious, wasn't it, that the equipment would have to be purchased,

¹ See *infra*, p. 1763 et seq., for testimony on Navy's rental of equipment.

whether by the Government or by renters for the purpose of putting it on these projects?

Captain RICHARDSON. It wasn't purchased. It happened that the manufacturers in many instances put the equipment on themselves. Everything was rented on short projects.

Mr. FULTON. It was perfectly obvious it was going to have to be new equipment which someone was going to rent to the Government or which the Government would buy itself.

Captain RICHARDSON. But we want to take into the understanding that we acquired this equipment last September. We didn't start off with \$85,000,000 in equipment.

Mr. FULTON. Isn't it true that it was perfectly obvious that the great bulk—it turned out to be over 80 percent, well over 80 percent—of the equipment would have to be new equipment?

Captain RICHARDSON. I wouldn't say there was 80 percent new equipment, because since last September there has been a lot of used equipment that has been turned loose from projects they were working on then.

Mr. FULTON. How much of that? How much of this one-hundred-odd-million dollars of equipment is used equipment?

Captain RICHARDSON. I would say approximately 50 percent.

Mr. FULTON. Then taking that— isn't that a little high?

Captain RICHARDSON. I don't think so. Frankly, if we could rent new equipment, we then get away from the maintenance factor.

Mr. FULTON. Isn't that factor of 50 percent considerably higher than what your camp construction men are reporting?

Captain RICHARDSON. What would you consider new equipment, direct from the manufacturer?

Mr. FULTON. What they call new equipment, unused equipment.

Captain RICHARDSON. Direct from the manufacturer?

Mr. FULTON. Not necessarily from the manufacturer. It might be from the warehouse.

Captain RICHARDSON. I am speaking of equipment that hadn't been out on a project.

Mr. FULTON. Yes; equipment that had never been on a project.

Captain RICHARDSON. I still say running around 45 to 50 percent. I am just guessing.

Mr. FULTON. Then, taking that figure, there is at least a \$50,000,000 batch of equipment that was new, and the Government would either have to buy it or it would have to pay rents sufficiently high to encourage private people to buy it and rent to the Government; isn't that true?

Captain RICHARDSON. That isn't correct.

Mr. FULTON. How else could it get it?

Captain RICHARDSON. The Government hasn't encouraged anyone to raise its rate. It has encouraged them to lower it.

Mr. FULTON. Have the rates been raised or lowered.

Captain RICHARDSON. I am still renting for 8 percent of valuation per month out of my office when they can't get equipment in their localities, and that happens to be 20 percent lower than the commercial rate prior to this program.

Mr. FULTON. You think you are getting a lower rate when you hire a thing for 12 months because it is lower than what used to be charged

for a 1-month job, with the equipment idle for a good deal of the time in between jobs.

Captain RICHARDSON. If we are going to need it for 12 months, we purchase it.

Mr. FULTON. Did you?

Captain RICHARDSON. Yes.

Mr. FULTON. You have a lot of equipment that you have had on these jobs on rental.

Captain RICHARDSON. Certainly; it started on a 3 months' project.

Mr. FULTON. Did you purchase it?

Captain RICHARDSON. Some of it. Some we didn't. Some specialty equipment; some old-model stuff we had to rent until we could get good equipment.

Senator BREWSTER. What did you figure was the cost of this service they rendered on the old contract where they were paying 10 percent a month and had to provide service and make repairs?

Captain RICHARDSON. I can tell you of my own personal experience. I can't speak for anyone else. In some instances we would keep the machine on the job 3 months. Just take one specific instance, the John McShain Co. or McCloskey Co.—we have rented them cranes. We would rent the contractor a crane and if we didn't have a service call within a month, we would send a man by for a monthly inspection to satisfy ourselves the machine was being properly used. That is one specific instance. Again, you might find a machine you put on the job would break down twice in 2 weeks.

Senator BREWSTER. I wanted to get an approximation of what the burden was, whether much or little.

Captain RICHARDSON. It was very little.

Senator BREWSTER. It was very little?

Captain RICHARDSON. Yes.

Senator BREWSTER. Under the revised form, what was the percentage you paid?

Captain RICHARDSON. Under the revised form of rental agreement?

Senator BREWSTER. Yes.

Captain RICHARDSON. In the revised form, sir, we are using the equipment 240 hours before any overtime is paid. We are not leaving to the discretion of the constructing quartermaster the number of hours he works the equipment on his project.

Senator BREWSTER. Under the other agreement was there any other limit on hours?

Captain RICHARDSON. No, sir; it was according to the number of hours being worked at his project. For instance, if they were working one shift 5 days a week, the rental was negotiated on that basis; if they were working one shift 6 days a week, it was negotiated on that basis.

Senator BREWSTER. Where did you get the figure of 10 percent a month?

Captain RICHARDSON. The 10-percent figure originally on commercial work was for 40 hours a week—5 days, 8 hours a day.

Senator BREWSTER. And for overtime it was proportionately increased?

Captain RICHARDSON. They paid 50 percent of the basic rate for all overtime.

Senator BREWSTER. And under the contracts which you have made since that time, what would they approximate as to percentages?

Captain RICHARDSON. We are speaking now of the new revised rental agreement?

Senator BREWSTER. Yes.

Captain RICHARDSON. Well, sir, I can speak of two personal instances. I would like to stick to that if I may because I can then give you a true picture. I can't tell you what it is in the zones. On the San Jacinto ordnance plant that is just starting, they needed some extremely heavy construction equipment on that job, some three-yard drag lines to cut levies with. We are renting that machine for 8 percent. We bought all of the small tractors for that job as it is set up for 12 months. We bought them outright. The heavy scrapers which would never be used for maintenance and will only be needed for 3½ months on that project, we rented at 8 percent of their valuation. That is new equipment, delivered from the factory.

Senator BREWSTER. And that is without any service?

Captain RICHARDSON. Without any service, but they rent them for 8 percent of the valuation, and no overtime is paid up to 240 hours.

Senator BREWSTER. Would you say that is typical or is that rather lower than what they would run?

Captain RICHARDSON. Well, sir, I have found the rates over the country have run according to the availability of the equipment.

Senator BREWSTER. And is that 8 percent on the retail or the wholesale price?

Captain RICHARDSON. That is considered the list price of the equipment.

Senator BREWSTER. That would be the retail?

Captain RICHARDSON. That is correct, sir. In other words, it is considered the contractor's price. That is the actual terminology.

Senator BREWSTER. That was what they figure these things on?

Captain RICHARDSON. That is true.

Senator BREWSTER. Although I suppose equipment dealers buying wholesale get a considerable advantage over that.

Captain RICHARDSON. I should imagine their profits on heavy shovels, according to my memory, run 10 percent—anything over a yard and a half shovel. For three-quarters of a yard it would be 15, 2-percent discount for cash. On smaller equipment, then, with naturally smaller investment, your profit would increase.

ESTIMATES OF GOVERNMENT EQUIPMENT REQUIREMENTS

Mr. FULTON. When did the Army first realize they were going to require \$50,000,000 of new equipment purchased for rental to the Army on these price schedules?

Captain RICHARDSON. When did they first realize?

Mr. FULTON. Yes; when did they first realize the size of their own program, so far as you know in your office?

Captain RICHARDSON. Well, sir, I took every individual project that was negotiated. The day after it was negotiated I tried to talk to and did talk to the contractors and engineers to try to anticipate the amount of equipment they needed.

Mr. FULTON. My question related to when the Army realized it had a large project on its hands.

Captain RICHARDSON. If we said we needed \$50,000,000 of equipment, what good would that do if we didn't know exactly the type of equipment we needed to move dirt in this section or that section? It changes entirely, according to the terrain.

Mr. FULTON. I understood the Army camps, as far as I have seen them or had any information on them, were relatively similar types of camps, and they move dirt and they have rocks, and when you dig a ditch for drainage pipe in one area, it takes roughly the same equipment it takes to dig a ditch in another area.

Captain RICHARDSON. "Roughly" is correct. In some instances you can use a trenching machine and dig very economically, and in another place you drill and shoot.

Mr. FULTON. Captain Richardson, didn't you realize you were going to need dump trucks and plenty of them?

Captain RICHARDSON. Oh, yes.

Mr. FULTON. Didn't you realize you were going to need concrete mixers and plenty of them?

Captain RICHARDSON. We didn't need many of them. We used batch mixers. We used small concrete mixers, to get into the individual barracks when the mud was so deep we couldn't get a truck in.

Mr. FULTON. There are a lot in these reports.

Captain RICHARDSON. Not a great many, not small portable mixers, but that is one item that happened to be available for rental at very low rentals.

Mr. FULTON. You were going to need tractors.

Captain RICHARDSON. That is correct, but what size tractors?

Mr. FULTON. Didn't you know what size tractors would be usable?

Captain RICHARDSON. It is hard to tell. Suppose you make test borings and make test scrapings and find rock under the soil.

Mr. FULTON. In other words, you don't think it would be possible for the Army to realize it had a big program and to realize it was going to need a lot of certain equipment, the very same things they did get on these projects, and go out and buy them for a lot less money than recapture value?

Captain RICHARDSON. As long as I have been associated with construction work—I am rather young, but since I was just a kid—I have worked for my father on construction work, and if I would ever equip a job prior to test borings on it, I wouldn't have stayed, and any other superintendent wouldn't.

Mr. FULTON. You didn't realize with the Army camps there was at least standard equipment, a large bulk of which would be needed and which you could hand out to the various camps where they needed it? That is where you are doing it.

Captain RICHARDSON. You have a good question.

Mr. FULTON. Aren't you doing that today with the equipment you recapture?

Captain RICHARDSON. Doing what?

Mr. FULTON. You don't go out and recapture equipment because you figure you can use it on this job. You recapture, and when you have a pool of equipment, you send from that pool whatever you need for a particular job.

Captain RICHARDSON. Mr. Fulton, I would like to find a pool. I need ten million in equipment right now.

Mr. FULTON. You still haven't enough?

Captain RICHARDSON. I need it today. In my office are listed today over \$10,000,000 that they need. There is no pool of construction equipment.

Senator BREWSTER. What basis are you proceeding on now as to how long the Government may be in the construction business?

Captain RICHARDSON. With reference to construction equipment, we are recapturing and retaining the Government's interest and equity in the construction equipment we have, unless it is outmoded that we don't want it and it would have nothing but salvage value when we get through. In the Army we have to call for a salvage officer to get rid of construction equipment. We want good, modern construction equipment to maintain and enough of it to maintain every station we have, whether it be an ordnance plant, a chemical-warfare plant, or an Army post.

Senator BREWSTER. You say now that you are recapturing everything that is modern and usable?

Captain RICHARDSON. Provided, sir, it is not specialty equipment. I don't think you could see the economy of buying a specialty item of equipment and letting it sit at an Army camp and rust out. I can't see it myself.

Senator BREWSTER. You imply there a complete decentralization.

Captain RICHARDSON. We request the local post quartermaster—this may be interesting to you to know how we are handling the recapture—to give us a list of equipment he needs for maintenance at his stations. If he has stabilized roads or if he has macadam roads, the shoulders have to be worked. He has to have a roller to patch these particular roads. He needs a bulldozer, he needs a compressor, he needs air tools to take care of his utilities.

The roads are approximately 35 to 40 miles in each camp. With the number of mechanized units and trucks you have today in camps, there is a continuous maintenance of roads, just like the State highway department. Prior to this program, every time the Army wanted to patch a piece of street, we had to go out and rent a piece of equipment. We now have it and own it, and it will be left at these stations for future maintenance.

Senator BREWSTER. I am addressing myself to the broader question about the machinery required for construction, whether or not you assume now that we are going to continue to build for another year or two.

Captain RICHARDSON. Now, sir, I don't turn any piece of equipment loose until the mechanical condition—

Senator BREWSTER (interposing). That applies even to what you term specialty?

Captain RICHARDSON. Yes, sir; I mean if the mechanical condition is so that we would have to spend 40 percent of the value putting it back in condition, of course, if we own it 100 percent, we own it, but if we had 40 percent equity and had to spend 40 percent to put it back in mechanical condition and were delayed trying to get parts (it takes 6 to 7 weeks to get repair parts) I don't think it is very economical to do that. I may be wrong.

Senator BREWSTER. You know, we are contemplating 15 or 20 more cantonments.

Captain RICHARDSON. And anticipating those, we are making a list of all the equipment that will be needed.

Senator BREWSTER. And accumulating that as far as possible?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. And do you have a central pool on that?

Captain RICHARDSON. In the central pool, sir, we don't have surplus equipment at this time. Within the next 3 months we will have ordnance plants that will be finishing their grading and railroads, and we will have that equipment then in the pool for these cantonments.

Senator BREWSTER. Then that will be available?

Captain RICHARDSON. Yes, sir; it will be available at no cost to the Government for rental on these other projects.

Senator BREWSTER. And do you get a list of what might be surplus equipment at our various zones?

Captain RICHARDSON. They can't release any equipment unless it comes to my office. We keep a list at all times from every zone. I think I showed Mr. Amberg the other day the list we have of every request that comes in for equipment then and anticipated on a new job. I asked every contractor to give me an anticipated list, and they will come in from each zone and request release or recapture.

Senator BREWSTER. You said you had a request now for \$10,000,000 worth of equipment you couldn't supply. Was that what I understood?

Captain RICHARDSON. That is correct. We can supply it over a time. We can get delivery within 5 or 6 weeks, but it is needed now.

Senator BREWSTER. What is the situation on production of this equipment machinery now? Is it under priority order?

Captain RICHARDSON. Yes, sir; everything is under priority order.

Senator BREWSTER. And is that being coordinated as to our future development in this country for the next year or so?

Captain RICHARDSON. Yes, sir. In other words, my connection with the priority—of course, we have a centralized priority to the local projects. They issue on priority the machinery that the particular project has, whether A-1-A or A-1-J. It is sent to the manufacturer, and the manufacturer will come and say, "We have the machine ready, but have to have a particular bearing to finish it," and Mr. Kahler and Mr. Metcalf have been very cooperative in O. P. M. any time I call them, to do anything possible to get that particular item through.

Senator BREWSTER. As we get onto a total defense basis, we are going to transfer much of our activity, I assume, from construction to more specific defense necessities?

Captain RICHARDSON. Yes, sir.

Senator BREWSTER. Are you anticipating that?

Captain RICHARDSON. Yes, sir. We are anticipating holding this equipment. We will own it. We are helping the engineers on some of their new projects now.

Senator BREWSTER. But I am thinking now about the manufacturers of this equipment, the same problem we have in automobiles, whether we will cut 20 percent or 50 percent. These manufacturers of equipment have got to transfer themselves into defense items, haven't they?

Captain RICHARDSON. Well, sir, that has been the trouble of getting construction equipment.

Senator BREWSTER. They are making tanks.

Captain RICHARDSON. They are making tanks, gun mounts, and everything else, and therefore cut down production on machinery.

Senator BREWSTER. You feel that in that field as rapid a transition is being made as is feasible?

Captain RICHARDSON. That is correct, sir.

Senator BREWSTER. And you are going to taper off your construction equipment very rapidly?

Captain RICHARDSON. It is coming to the point now, sir, as I was showing you in one instance of the Alabama ordnance work, that we have furnished, up to June 1, every item of equipment they had needed, without renting, except for a minor item. We are speaking of heavy dirt-moving equipment that would be of no use to the Government, that is owned by the Government and is staying there, and the only cost to us is maintenance.

Senator BREWSTER. Won't we be modifying our traditional practice about discarding equipment as obsolete now and perhaps using some of the old things a little longer, in view of the necessities?

Captain RICHARDSON. Well, sir, speaking of an equipment being obsolete, take a specific item, a tractor. After 5 years, the maintenance is usually so high on a tractor that it is really costly to own it, just for maintenance purposes.

Senator BREWSTER. I am thinking now in terms of whether the production capacity may not have to be used on tanks, and we would use a little longer replacement than was perhaps really efficient.

Captain RICHARDSON. Our only trouble, sir, is getting repair parts and holding the equipment idle, sitting there producing nothing at all.

Senator BREWSTER. May it not be more efficient, perhaps, we will say, more in line with German practice, to produce a few repair parts, if by that we can keep the main equipment going?

Captain RICHARDSON. As I told you before, I talk to Mr. Metcalf and Mr. Kahler, who are really cooperating with me on it, and they have expedited any instance I have had, and, of course, we have to give a project the repair parts and anything else according to its priority. If it is A-1-A, that fellow doesn't have much trouble, but the poor fellow who is A-1-J is the one you have to fight for to see that he keeps his equipment in repair.

Senator BREWSTER. Do I understand that you think the manufacturers of construction equipment are eager to transfer their activities to other items?

Captain RICHARDSON. No, sir; I don't believe they are to the extent of producing only 40 percent machinery. I am not speaking of fractions of 100 percent. They didn't have machine tools enough to build that. Part of their milling machines couldn't be used on gun mounts, or couldn't be used on a shell case or tank or anything else. It would have to be used for the specific item they are manufacturing now.

Senator BREWSTER. It is going to be necessary to give them a little encouragement, isn't it?

Captain RICHARDSON. I think so, yes, sir. I agree with you perfectly there. We tried to give them all the encouragement. They come to us and say they are trying to give us deliveries on a certain project.

"Will you help us get this item?" I don't think any manufacturer can say anyone in my office turned them down, that they didn't go over to the O. P. M. and fight for them.

Senator BREWSTER. On that general economic question that is involved, to what extent do you confer with any central control?

Captain RICHARDSON. I didn't quite understand your question.

Senator BREWSTER. I will use the analogy of the automobile again, which is in everyone's mind, but obviously the same problem is going to be presented with construction equipment, that in the next year we probably have got to go out of the building business into the defense business, and you, as probably the largest single user of construction equipment in the country—

Captain RICHARDSON (interposing). I think the largest user and the largest owner.

Senator BREWSTER. Undoubtedly. You, therefore, are one of the major factors involved in that, but the Navy and the Maritime Commission are doing it.

Captain RICHARDSON. I understand the Navy doesn't have a recapture clause.

Senator BREWSTER. The point I am coming to is who in the Government is responsible for seeing that our transition is accomplished with the minimum of difficulty and dislocation?

Senator RICHARDSON. Naturally, I have charge of the release of all construction equipment; in many instances, to see if it will be economical, it is taken up with my commanding officer, Major Wilson, in charge of purchasing and expediting. He is chief of that section. We have anticipated the automobiles and trucks. We have read a lot in the newspaper about production being cut down, and it has been cut down, as we all know. We take bids for trucks—anything over 3 tons—and get them in 4 or 5 months. We are lucky if we get them then. They come back and say, "We have a priority on this, that, and the other, and you will come next." So, we have recaptured these trucks, and we are using them at other projects. In the third zone we finished Army camps, and I can say without exaggeration that we saved over 93 percent of the transportation on every project in that particular zone, because the ordnance plants needed the equipment then. We own them, and we have acquired enough trucks to take care of ourselves. If production on trucks stopped tomorrow, we would be pinched for a while until the other ordnance plants were finished—in 3 months, some of them. But we can look out for ourselves and have transportation facilities.

Senator BREWSTER. In other words, you are looking after your specific job just as well as you can.

Captain RICHARDSON. I am trying to, sir.

Senator BREWSTER. I am addressing myself to the broader question of the economic adjustments, and that is what I want to know now, to what extent did you take that into account, or who does take it into account, as far as you know?

Captain RICHARDSON. As far as I know, sir, the requirement of automotive equipment—

Senator BREWSTER (interposing). I am speaking of construction equipment. That is quite an industry.

Captain RICHARDSON. That is quite an industry.

Senator BREWSTER. I am using the analogy of the automobile, but I want to know whether anybody is telling the construction boys in this country that we probably have got to taper off construction equipment and get over into the other. Is anybody saying that?

Captain RICHARDSON. Not to my knowledge, sir.

Senator BREWSTER. That is the answer.

Captain RICHARDSON. I wanted to be sure I gave you the right answer. I wasn't sparring with you.

Senator BREWSTER. I quite realize that. I thought you meant if we had anticipated the future automotive needs so that if we had to stop the production of automobiles or trucks, whether we were in a position to take care of ourselves. That is what I was particularly referring to.

GOVERNMENT PURCHASE OF EQUIPMENT

Mr. FULTON. Captain Richardson, when you spoke of the various manufacturers coming to you and asking you to help them get necessary materials on which they were short, were those manufacturers persons who had made arrangements to deliver the equipment to third parties or contractors to rent to the Government, or was that equipment being purchased directly?

Captain RICHARDSON. They only come to me when it is being purchased—I want you to understand this—not to get their material, but possibly, as we had the other day, to get one small bearing. We had 4 bearings in a big 20-yard scraper, and that was the only thing that was holding up the production of that machine. Everything else was assembled but that one bearing, and New Departure let them have 109 to put that on.

Mr. FULTON. Like so many articles, if you are short one piece of material, you can't finish.

Captain RICHARDSON. They haven't come to me and said "Get me castings" or anything of that type, which they seem to be able to get. It is the small critical items, such as this particular bearing, which, without a certain amount of chromium steel or high manganese steel, won't last.

Mr. FULTON. I wanted to know whether they were coming to you for assistance in those cases where they were making the article for some third party to rent.

Captain RICHARDSON. No; they are not—only on the equipment we are buying outright ourselves.

Mr. FULTON. And one reason I was asking whether the Government couldn't have foreseen it was going to be buying all this equipment is the fact that I noted in one instance that you were recapturing a couple of dozen International dump trucks, about as common a type of equipment as you can think of, at a price of \$306 more than the \$1,480 that the equipment company had gone out and bought them for, and I can't see why the Government can't save that \$306 on each of that type of equipment.

Captain RICHARDSON. As I explained to you yesterday, Mr. Fulton, the equipment you are speaking of was recaptured prior to the existence of the zone. It was up to the local constructing quartermaster to approve the rates of the lowest bid he received.

Mr. FULTON. I think you also explained to me yesterday that the Army could buy it for even less than that \$1,481.

Captain RICHARDSON. Possibly, yes.

Mr. FULTON. So, in addition, they not only have been losing the savings they could make by multiple bids, but have been losing the \$306 they paid this equipment owner more than he paid himself.

Captain RICHARDSON. As I explained to you, the Motor Transport was so jammed for autos for mechanized equipment that in expediting this machinery, it is all right to say "Give a man an order for 100 units"—

Mr. FULTON (interposing). I say if the equipment man can go out and buy them, so can the Army.

Captain RICHARDSON. That is the thing you and I don't agree on.

Mr. FULTON. They could if we could wait for them.

The CHAIRMAN. Captain Richardson, what this committee is interested in is to find out where errors have been made and to prevent them from happening in the future. We are not here to fence with you about the protection of some equipment trusts or to fence with you about whether the Government could buy a truck for \$1,400 when it paid \$1,600 on recapture clause. If the Government has made a mistake on that recapture clause (and they undoubtedly did make a mistake if they paid \$1,600 for a truck that could be bought for \$1,400), it is your business to explain to this committee how that could be stopped, and that is what you are here for.

Captain RICHARDSON. Would you recommend not having a recapture clause?

The CHAIRMAN. No; I recommend having a recapture clause that would recapture the equipment at a just and fair value, and not what some equipment man thinks it is worth.

Captain RICHARDSON. I think it takes legislation (I may be incorrect) to tell a man what he can sell his equipment for.

The CHAIRMAN. I don't think it does. It takes a good negotiator, a fellow who looks after the Government's business as well as his own.

Captain RICHARDSON. We are speaking of equipment. Lumber isn't the same price as it was a year ago; neither is steel.

The CHAIRMAN. Now you are quibbling.

Captain RICHARDSON. No, sir.

The CHAIRMAN. What we are trying to get at is what is at the bottom of this, and we have you here for that purpose, and you are a Government official.

Captain RICHARDSON. If anyone has a suggestion, I will be glad to work on it night and day until it is carried through, but I can't control equipment prices, personally, as a Government official, or anybody else.

The CHAIRMAN. I don't expect you to, but when the Government has paid \$1,600 for a \$1,400 truck (that is one instance—there are probably thousands of them), it is your business to dig that out and tell us what ought to be done to change it.

Captain RICHARDSON. The only thing I can do is have price control on equipment.

The CHAIRMAN. You don't need price control. You need a good negotiator.

Senator BREWSTER. I think you said it is on the list price that this is now determined?

Captain RICHARDSON. Sir, it on the price; in other words, we sent out invitations to bid on rental equipment——

Senator BREWSTER (interposing). Answer that question. Is it the list price or isn't it?

Captain RICHARDSON. In most cases, yes; but I mean that is also his price to us, and we send out an invitation to bid.

Senator BREWSTER. Won't you please answer my question? In most instances the list price is the figure which is used on recapture?

Captain RICHARDSON. Possibly, yes.

Senator BREWSTER. Although everybody knows perfectly well that isn't the price you paid.

Captain RICHARDSON. That is right. Well, have you ever seen anyone stay in business by selling that or anything else at the same price he paid for it? I don't think we would request anyone to do that. We want him to make a legitimate profit. We don't want an excess profit.

Senator BREWSTER. What is your differentiation between renting and selling? That is where, it seems to me, your whole difficulty has arisen, that while they are nominally rental, they are fundamentally sales, and in the interchange is where the profit has come.

Captain RICHARDSON. In other words, you advocate doing business directly with the manufacturer in all instances on the purchase? Is that correct?

Senator BREWSTER. I think that we recognize your problem and, as the chairman has said, we are trying to apply the conditions in this crisis. We recognize that in the last 10 years there hasn't been any such condition as this, but overnight, in the last year, the whole picture has been transformed. I take it you were retained by the Government as an expert in this field——

Captain RICHARDSON (interposing). I think so; yes, sir.

Senator BREWSTER. To save everything possible for the Government?

Captain RICHARDSON. That is correct.

Senator BREWSTER. The fact that something might have been done before had no application to the revolutionary conditions of this past year. It was not our job and the Government's job to quibble all the time, and the fact that mistakes have been made, as the chairman has pointed out, isn't a matter of criticism. We have all had to operate under pressure.

Captain RICHARDSON. If they hadn't made mistakes, with the amount of work they had to do, they would have been out playing golf.

Senator BREWSTER. I think the only thing we have to regret here is that your attitude seems to be rather that of protecting the equipment dealers and the manufacturers rather than telling us how we could do a better job and a more economical one.

Captain RICHARDSON. I am trying to tell you a true picture of what exists now, and if you can tell me how to control prices, I will do that. I will do everything I can to try to control them, by calling for as many bids as we can possibly get.

Senator BREWSTER. You will recognize that when the Government is suddenly becoming the biggest user of this apparatus in the country, it ought to get a better deal.

Captain RICHARDSON. That is correct, sir.

Senator BREWSTER. Our impression is that we haven't gotten a better deal, but a worse deal. While the Government has 10, 50, 60, or 80 percent of the equipment in this country, instead of the arrangement that has always prevailed, suddenly there was a whole change in the picture, and we are trying to find out whether that change was to the advantage of the Government, and you give very little evidence to indicate it was. It looks as though the dealers had a better deal since this crisis arose than they did before, and we don't think that is right.

Captain RICHARDSON. I have a very good suggestion how we can control it and expedite it.

Senator BREWSTER. We want to hear it.

Captain RICHARDSON. Set up a machinery-procurement division.

Senator BREWSTER. That is constructive.

Captain RICHARDSON. For nothing but construction equipment.

Senator BREWSTER. That is constructive. That is what we want to have.

Captain RICHARDSON. Not decentralized, but centralized right here.

Senator BREWSTER. That is right.

Captain RICHARDSON. To operate directly with the manufacturers, requiring them to put repair parts on the job (which we have done), which could be returned with full credit. We have already done that. That is the idea.

The CHAIRMAN. Now you are talking constructive things.

Captain RICHARDSON. We are doing that right now. We are doing that in my office. That has already been done, with the approval of the local constructing quartermaster. I am trying to expedite everything in my office on construction equipment, particularly where it runs into money.

The CHAIRMAN. This committee is not interested in anything but to get the job done.

Captain RICHARDSON. That is what we are interested in, and trying to do it as cheaply as possible.

The CHAIRMAN. That is the reason we are holding these hearings.

Captain RICHARDSON. Now we are in a position, sir, where we have more time, and if the bids are not right, we can throw them out and ask for more bids.

Senator BREWSTER. You say you have no control over prices. Mr. Henderson is purported to exercise considerable authority over prices. Have you communicated with him?

Captain RICHARDSON. Mr. Henderson may set prices on steel, but not on finished products.

Senator BREWSTER. He is undertaking to fix it on finished products now.

Captain RICHARDSON. I will be very glad to cooperate with Mr. Henderson or anyone you can suggest.

Senator BREWSTER. Have you taken it up with his office at all?

Captain RICHARDSON. No, sir, we haven't.

Senator BREWSTER. Do you know that we have enacted legislation that makes it possible for the Government to take over the equipment, within the last week or two?

Captain RICHARDSON. You can take over private industrial plants. Is that correct? You can take the plant over for production if it is agreeable to them.

Senator BREWSTER. Either the plant or the equipment.

Captain RICHARDSON. I see.

Senator BREWSTER. The law is broad enough for that. Have you familiarized yourself with that yet?

Captain RICHARDSON. No, sir. I think it would be a very good thing if I did, though.

Senator BREWSTER. That, I assume, involves the determination of fair price. That is in the essence of it, because the Government must, of course, pay what is fair.

Captain RICHARDSON. What do you consider a fair profit? I would like to have some basis to work on; I mean, to cooperate with your committee and also to see that I am doing a good job.

Senator BREWSTER. I think we have accepted the proposition that we will not try to limit too closely the profits, with the idea that the income tax will recapture anything which is excessive.

Captain RICHARDSON. That is correct.

Senator BREWSTER. On the other hand, we don't think that the lid should be off. If you are buying a million dollars' worth of equipment for the Government before last year, and suddenly the Government went into the market for eighty-five or a hundred million dollars' worth of equipment, we don't think the million-dollar base should apply to the hundred million dollars. Would you think that?

Captain RICHARDSON. No, sir.

Senator BREWSTER. The same basis of profit.

Captain RICHARDSON. That is correct. If a man makes 10 percent profit on a large item of heavy construction equipment, would you consider that to be in excess?

Senator BREWSTER. The thing I don't understand is why the Government doesn't do its own buying. That is the problem. Why any intermediary?

Captain RICHARDSON. Let's do our own buying, but you have told me to try to control prices, if I can. I want to know what you think is fair for any manufacturer to make. The Navy said 10 percent on every contract.

The CHAIRMAN. I don't think we ever made any intimation that you could control prices. As a good negotiator, you can get the best deal possible for the Government. It is a case of negotiation in these recapture contracts. That is all it is.

Senator BREWSTER. The difficulty I have with it is that the 10 percent that you are talking about, as I understand it, is not for the manufacturer but for the intermediary. That is where we have our trouble—the equipment dealers.

Captain RICHARDSON. Sir, I don't think you will find that the manufacturers will completely eliminate their dealers. I don't believe so.

Senator BREWSTER. Do you mean to say that you can't buy direct?

Captain RICHARDSON. Yes, sir; I bought direct the other day.

Senator BREWSTER. You buy direct all the time from automobile companies and others?

Captain RICHARDSON. Yes.

Senator BREWSTER. That is our problem. We think these intermediaries have been the boys that got the gravy. Isn't that so?

Captain RICHARDSON. That may be so, sir. I mean they have gotten it on repair parts, for instance. We have asked them for a service, and they gave it to us that way. It came out of their normal stock, and they knew they were going to sell it.

Senator BREWSTER. We quite understand how they develop and the reasons for their existence, but with the conditions that have developed in this last year, the whole picture has changed.

Captain RICHARDSON. That is correct.

Senator BREWSTER. And whether it was wise to continue that function in view of the Government's necessities is what we are considering.

Captain RICHARDSON. Well, would you consider it economical and good business, as I stated before, to set up a central procurement office in Washington for construction equipment only?

Senator BREWSTER. We would like your opinion on that.

Captain RICHARDSON. I think it would.

Senator BREWSTER. That is, as the chairman said, a constructive suggestion.

Captain RICHARDSON. Plus negotiating here to take into consideration every manufacturer that makes that particular item.

Senator BREWSTER. I think you have got to go even further than that, and I think with that central thing, you have got to determine the tapering off of this whole thing for the next year. Within a year from today, 50 percent of our economic activity has to be devoted specifically to defense. That is going to be tough on the dealers. It is going to be tough on equipment concerns. It is going to be tough on a lot of people.

Captain RICHARDSON. Do you mean to purchase, in lieu of rental of all equipment now?

Senator BREWSTER. There I would rather have your opinion.

Captain RICHARDSON. Well, I would say buy equipment if it could be used for future maintenance, and rent equipment that we won't use for future maintenance.

Senator BREWSTER. You are eliminating, apparently, the possibility of Government construction program continuing for at least a year.

Captain RICHARDSON. Well, sir, if we want to anticipate for a year, I would recommend buying all of it, but I know that we are finishing up plants from which we will have equipment available that the Government will own.

Senator BREWSTER. You have a comprehensive plan. We are building in Newfoundland, and we are building in Iceland.

Captain RICHARDSON. We have even let them have tractors for those projects, because they couldn't get them themselves.

Senator BREWSTER. We have got to stop manufacturing construction equipment, perhaps, in large measure, and I think the Government, as the largest user, ought to take the lead in accomplishing that transition with the least dislocation. I think that is where perhaps your thought should be a little more direct.

Captain RICHARDSON. My little unit is just open for any criticism in the world. If there is anything that you can come out and tell me that I can save the Government money, I am sitting right there waiting for it. We will like any suggestions you can give.

Senator BREWSTER. I think you should get together with the O. P. M., the Navy, and the Maritime Commission, and sort of put your heads together and decide how soon you are going to put the construction boys out of business, the way Mr. Henderson did with the automobiles.

Captain RICHARDSON. We have coordinated with the United States Engineers and with W. P. A., and among ourselves, so that if there was any surplus equipment, we have anticipated that at meetings in the Under Secretary's office, and have really cooperated and are cooperating among ourselves on particular critical items of special equipment. Anything that we can let them use for awhile that is Government owned, we let them use. If they have a dragline and we haven't one, they let us use it. I will go further and go into the Navy, if you like, and with O. P. M., and coordinate the whole thing.

Senator BREWSTER. You answered me earlier that to your knowledge, nobody was giving attention to the larger economic aspects of the transfer of the construction industry. That is what I think you should bring to the attention of somebody in the Government, who ought to be thinking about that.

Captain RICHARDSON. As far as I know. I am answering you as I know.

Senator BREWSTER. That is what we want to know.

Mr. FULTON. If you find that anybody has been giving attention to that, will you inform the committee?

Captain RICHARDSON. Do what?

Mr. FULTON. If you should find that anybody has been giving attention to that, will you inform the committee?

Captain RICHARDSON. I certainly will be glad to. I will make a note of that now so I won't forget.

Mr. FULTON. In connection with these studies that you made of the desirability of renting or buying, I take it that you now, on the basis at least of hindsight, believe we would have been better off if we had bought this equipment and bought it directly rather than through this basis of renting it with a recapture provision?

Captain RICHARDSON. Well, we did buy it on the ordnance plants, but we rented it on camps.

Mr. FULTON. But you bought it on their recapture prices.

Captain RICHARDSON. That is correct.

Mr. FULTON. And those recapture prices were increased by an allowance of 1 percent for each month.

Captain RICHARDSON. That is correct. That was also contained in the basic contract.

Mr. FULTON. Have you made any study of how many million dollars less would have been required to purchase that if they had purchased it directly instead of through this recapture provision?

Captain RICHARDSON. Not until the final report of the amount of equipments recaptured. Then I could give you a true picture of it. At this time, again I say, I would like to supplement that report with the report of July 1, which will give you a better picture of the construction equipment.

Mr. FULTON. Could you estimate roughly how much less would have been required if you had purchased direct some of the items?

Captain RICHARDSON. Would be required or the money saved?

Mr. FULTON. How much would have been saved if the Government had bought it directly instead of through this device of renting it and then recapturing it?

Captain RICHARDSON. Well, that would have to take in a broad factor, and it is hard to give you a direct answer.

The CHAIRMAN. About 20 or 25 percent?

Captain RICHARDSON. I would estimate from 10 to 12 percent.

Mr. FULTON. An average of 10 or 12?

Captain RICHARDSON. Yes. But the idea was to get the equipment there. I mean get it moving.

Mr. FULTON. As I understood you, you expected that at least \$40,000,000 of this equipment would be recaptured?

Captain RICHARDSON. That is correct.

Mr. FULTON. And 10 or 12 percent would be between four and five million dollars on that item.

Captain RICHARDSON. That is correct.

Mr. FULTON. As to some of this equipment, it hasn't been recaptured, not because you haven't paid a rental that is about equal to the recapture price, but because it is older than the equipment that you want to have. Isn't that correct?

Captain RICHARDSON. You are speaking of the equipment at the present time?

Mr. FULTON. Yes; say used equipment.

Captain RICHARDSON. I think we have weeded out most of the equipment—there may be a few isolated instances—before June that you have that report on. You may find one once in a while where we can't replace it, due to long delivery. I can't state that.

Mr. FULTON. What I had in mind is that I understand that used equipment is not being recaptured, if it is old equipment, on the theory that you don't want old equipment for maintenance purposes.

Captain RICHARDSON. Well, it is recaptured if it is in very good condition. Will you speak of a specific item of equipment?

Mr. FULTON. Suppose it is in bad condition.

Captain RICHARDSON. In bad condition?

Mr. FULTON. You are not recapturing it, are you?

Captain RICHARDSON. Unless it would pay the Government to fix it up. That is the only thing.

Mr. FULTON. Take the example, if you want one, of a 5-year-old dump truck that is in pretty bad condition.

Captain RICHARDSON. We wouldn't recapture it, but we wouldn't allow 100 percent or 90 percent rental. There have been instructions to the field prior to this, and I think I can give you the exact date in just a second.

Mr. FULTON. What difference would it make if you rented two of them for an aggregate of 6 months instead of one of them for an aggregate of 6 months? It is still the same rental.

Captain RICHARDSON. I didn't try to impress upon you that we were getting rid of them and renting them again.

Mr. FULTON. You have to have something in its place. You would have to rent something in its place.

Captain RICHARDSON. We would possibly be through with it by that time.

Mr. FULTON. I see.

The CHAIRMAN. The committee will recess until 10:30 tomorrow morning.

(Whereupon, the hearing recessed at 12 noon until 10:30 a. m., Wednesday, July 30, 1941.)

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

WEDNESDAY, JULY 30, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE THE
NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Tuesday, July 29, 1941, in room 318, Senate Office Building, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman, chairman, and Ralph O. Brewster.

Also present: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order.

Mr. McNairy, will you be sworn? Mr. McNairy, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. McNAIRY. I do.

TESTIMONY OF C. B. McNAIRY, VICE PRESIDENT AND ASSISTANT SECRETARY, T. A. LOVING CO., GOLDSBORO, N. C.

The CHAIRMAN. Proceed, Mr. Fulton.

Mr. FULTON. Mr. McNairy, I understand that you are associated with the T. A. Loving Co. Would you tell us the nature of your connection?

Mr. McNAIRY. I am vice president and assistant secretary.

Mr. FULTON. And that company obtained a cost-plus-a-fixed-fee contract, did it not, for construction at Fort Bragg?

Mr. McNAIRY. That is correct.

Mr. FULTON. Will you tell us something about the company and its past history before it got the contract?

Mr. McNAIRY. T. A. Loving & Co. from 1924 until 1937 operated as an individual. On November 12, 1937, it was incorporated and has existed in corporate form from that day to this.

FEE RECEIVED BY T. A. LOVING & CO. FOR FORT BRAGG CONSTRUCTION

Mr. FULTON. How much do you now estimate your request for fixed fee for the Bragg job will amount to?

Mr. McNAIRY. We approximate it will be approximately \$570,000.

Mr. FULTON. And I understand that you estimate your nonreimbursable expenses that you incurred, that is expenses that are not chargeable to the Government, are somewhere in the neighborhood of \$100,000; is that correct?

Mr. McNAIRY. No; I think it is larger than that, sir.

Mr. FULTON. How much would you estimate it? I beg your pardon, I have a letter which indicates it is \$140,000.

Mr. McNAIRY. That is nearer the figure I had in mind. One hundred and forty thousand dollars is the figure, and I would like to state that the \$570,000 that I mentioned is contemplated. The War Department has only indicated around \$460,000.

Mr. FULTON. If you should obtain the claim that you are making of \$570,000, that less your nonreimbursable expenses would leave you about \$430,000.

Mr. McNAIRY. Less the expense that would be necessitated in attempting to secure the additional fee.

Mr. FULTON. You mean if you are involved in litigation or something of that kind?

Mr. McNAIRY. Yes.

Mr. FULTON. How does that \$430,000 that you obtained on that project compare with the net annual profits of the company for previous years?

Mr. McNAIRY. Exceedingly in excess of any in previous years.

Mr. FULTON. What were your net annual profits for, say, 1938?

Mr. McNAIRY. The net annual profit for 1938 was \$3,459.74.

Mr. FULTON. Or less than 1 percent of the amount of this fee, less all your nonreimbursable expenses.

Mr. McNAIRY. Approximately that; yes, sir.

Mr. FULTON. And it was about the same amount, was it not, for the next year?

Mr. McNAIRY. Yes, sir; that is correct; 1939 was approximately the same.

Mr. FULTON. And for 1940 it was around \$17,000?

Mr. McNAIRY. That is correct, sir.

Mr. FULTON. But in fairness, is it true that you have a method, which is a perfectly legal method, of taking your profits for annual income purposes at the time of the completion of the job instead of at the time of the accrual?

Mr. McNAIRY. That is correct, sir.

Mr. FULTON. Will you tell us, if you can, the approximate amount of your accrued profits for, say, '38 or '39?

Mr. McNAIRY. I don't know what the figures would be for the individual years, but all through the years we ran \$300,000, if I remember correctly.

Mr. FULTON. So your annual profits on that basis would have been about \$100,000.

Mr. McNAIRY. That is about it.

Mr. FULTON. Or something less than one-fourth of the amount of this fixed fee.

Mr. McNAIRY. That is right, sir.

Mr. FULTON. In getting that fixed fee, was that one that had been offered to you, or did you ask for one that large?

Mr. McNAIRY. I didn't get the first part of your question.

Mr. FULTON. Were you offered the fee by the Government or did you ask for a fee that amounted to four times your earnings even on this more favorable basis?

Mr. McNAIRY. The fee of \$570,000 I asked for. The fee of four-hundred-sixty-some-thousand dollars they offered us.

Mr. FULTON. Why did your company ask for a fee that amounts to, any way you figure it, four or five times what it was earning in an entire year?

Mr. McNAIRY. Because we felt we deserved it.

Mr. FULTON. Just why?

Mr. McNAIRY. What is that?

Mr. FULTON. What is the basis for it?

Mr. McNAIRY. The basis of the size of the camp at Fort Bragg, the organization that we perfected and placed there; I imagine the same way that an attorney fixes a fee whenever he goes out and collects \$100,000 and gets 20 percent for it.

The CHAIRMAN. What did the camp cost the Government?

Mr. McNAIRY. Approximately \$40,000,000.

The CHAIRMAN. That includes everything?

Mr. McNAIRY. That includes everything; yes, sir.

The CHAIRMAN. The construction and the roads and the buildings? Is the camp completed now?

Mr. McNAIRY. We ceased construction on the fixed-fee contract yesterday. That includes the construction costs, all fees, architect-engineers, the local C. Q. M.'s expense, and the Washington expense.

The CHAIRMAN. How many soldiers will that camp hold?

Mr. McNAIRY. Approximately 67,000.

The CHAIRMAN. There are two division there, I believe.

Mr. McNAIRY. No, sir; one division but several brigades and special troops.

Mr. FULTON. When this contract was negotiated, how big an organization did T. A. Loving have? What were their net assets about that time?

Mr. McNAIRY. The net assets of T. A. Loving Co. approximately at the time the contract was let? You have that statement, sir. Approximately on June 30 the net assets—shall I say surplus and capital—was \$560,000.

Mr. FULTON. Then your fee is almost as much, even after you deduct all your own expenses, as your entire capital and assets.

Mr. McNAIRY. That is correct; yes, sir.

Mr. FULTON. Just how big an organization in numbers of men did you furnish to the Government?

Mr. McNAIRY. To start with our contract was \$3,700,000, approximately.

Mr. FULTON. I meant the organization of your company. How many people's services were you furnishing for this fee on a non-reimbursable basis?

Mr. McNAIRY. I don't remember the exact number of people we put over there. As far as the officers of the company were concerned, all four of us were there.

Mr. FULTON. That is four. How many more than four did you furnish?

Mr. McNAIRY. We only have four officers.

Mr. FULTON. How many people did you pay the salaries for?

Mr. McNairy. We furnished all of the key personnel of the organization, and as the project developed in size and scope, we, of course, had to employ other people to expand the organization to take care of the expanded program.

The CHAIRMAN. You say this was first to be a \$3,000,000 project?

Mr. McNairy. Our original contract was \$3,751,845.

The CHAIRMAN. What sort of camp were you supposed to build for that \$3,000,000?

Mr. McNairy. A camp, if I am not mistaken, to take care of around 8,000 people.

The CHAIRMAN. And they increased it 10 times over after you got the contract?

Mr. McNairy. That is correct, sir.

Mr. Fulton. In addition to those four officers, did you furnish anybody else, the salaries of whom you paid?

Mr. McNairy. No, sir.

Mr. Fulton. So that in effect, for loaning the organization's four men and the use of your assets to whatever they were used, you got this net fee after nonreimbursable expenses of around \$500,000, or you will get it if you succeed in your claim.

Mr. McNairy. Yes.

RATES FOR EQUIPMENT RENTAL AT FORT BRAGG

Mr. Fulton. Mr. McNairy, when you took that contract, or when you applied for that contract, were you asked the question as to whether you considered the schedule of the Associated General Contractors of America as being a fair and equitable schedule?

Mr. McNairy. We were asked that question; yes, sir.

Mr. Fulton. And did the head of your corporation in writing answer "Yes"?

Mr. McNairy. He did, sir.

Mr. Fulton. Did you rent your equipment on that schedule or did you charge higher rents?

Mr. McNairy. We rented the equipment based on that schedule, but it was a higher rate for the same reason that that schedule was based on 40 hours a week and we worked it 56 hours a week. That was the basis on which we set up to build the job.

Mr. Fulton. And in preparing your schedule of rates did you take that Associated General Contractors' schedule and make a computation based on that and on nothing else?

Mr. McNairy. No, sir; not on nothing else, but based on that we did arrive at the rent that we wanted and applied for and which was finally negotiated.

Mr. Fulton. And would you explain again just what you meant when you say that the schedule was based on how many hours a month?

Mr. McNairy. Forty hours a week.

Mr. Fulton. Which would be approximately 160 or 170 hours a month.

Mr. McNairy. Approximately.

Mr. Fulton. What I wanted to know was, did you base your rates on that with what you termed an appropriate adjustment because of the difference in hours?

Mr. McNAIRY. I think, if I am not mistaken, we added approximately one-sixth to the rates of the A. G. C., somewhere in that neighborhood. In other words, the 40-hour week is the basis on which the work had been performed for the Government and for other agencies up until this time. It could have been performed any of the 6 days, but when we started Fort Bragg we decided to work 7 days a week, and therefore we added approximately one-sixth to the A. G. C. price.

Mr. FULTON. Are you sure the A. G. C. schedule is based on 40 hours a week as distinct from 240 hours a month?

Mr. McNAIRY. I didn't mean to state the A. G. C. schedule stated it was based on 40 hours a week, but everyone working at that time was working 40 hours a week and doing it within 6 days; as a rule, 5 days.

Mr. FULTON. Doesn't that schedule itself state it is based on a 240-hour month?

Mr. McNAIRY. I couldn't say, sir. If you have it in front of you, I will be glad to look at it and see, sir.

Mr. FULTON. Will you look at that page and see whether it doesn't indicate 30 days, 8 hours per day?

Mr. McNAIRY. It says to arrive at a daily rental expense, you divide—no; it doesn't say 240.

Mr. FULTON. By 30 days.

Mr. McNAIRY. By 30 days.

Mr. FULTON. Two hundred and forty a month.

Mr. McNAIRY. That is correct, sir, but it is not anticipated for Sundays or holidays or other time that shall be deducted to arrive at a daily expense. That is not a monthly expense. That is how you arrive at a daily expense. If you rent a piece of equipment for 1 day, that is how you arrive at it.

Mr. FULTON. You added approximately one-sixth?

Mr. McNAIRY. I would say approximately that amount.

Mr. FULTON. And did you make any deductions from the schedule?

Mr. McNAIRY. In fact, in some cases we are higher than one-sixth and in some cases we are lower than if we added one-sixth.

Mr. FULTON. In many cases you are higher than one-sixth.

Mr. McNAIRY. And in many cases we are lower.

Mr. FULTON. Then just how did you make that determination, because if you are higher and lower, is it a fact you used this schedule or is it a fact you made up your own determination?

Mr. McNAIRY. I merely said we used the schedule as a basis, as a guide to go by.

Mr. FULTON. But when you determined the rents, you determined the rents irrespective of the schedule; is that right?

Mr. McNAIRY. If that is the way you interpret it, yes, sir, but I used that as a basis. I had to have something as a basis to go on.

Mr. FULTON. I don't quite understand. If you took the schedule as Mr. Loving had indicated in his signed statement he was going to do—

Mr. McNAIRY (interposing). I don't think Mr. Loving made that statement. He said he thought it was a fair basis.

Mr. FULTON. The question is, "Do prospective contractors consider the equipment-rental schedule compiled by the Associated General Contractors of America, Inc., as being fair and equitable?" And the

answer is "Yes" in the handwriting of Mr. Loving; is that not correct?

Mr. McNAIRY. I think that is exactly what he intended.

Mr. FULTON. You mean by that, he intended to say it was equitable, but by that he did not intend to say he would rent his equipment at that rate?

Mr. McNAIRY. I think his intention was (and I was at the conference) that the whole A. G. C. schedule was equitable for the work that was being performed on the terms and hours that were being worked at that time. He did not say that each individual piece was an equitable adjustment. I think you will find in our schedule that we will run under as often as we will run over, and with one-sixth added to the rate, I think you will find all the way through it will balance up to that point.

Mr. FULTON. In the first place, why add this one-sixth if you have agreed it is equitable as stated?

Mr. McNAIRY. Because we had no idea when we entered into the contract whether we would work any further than 40 hours a week; that was the prevailing custom at that time.

Mr. FULTON. And in the second place, if you have agreed to the idea that one-sixth added makes an adjustment, why didn't you simply take the schedule and add one-sixth to every single item? And that, of course, you didn't do.

Mr. McNAIRY. No, sir.

Mr. FULTON. Why didn't you do it?

Mr. McNAIRY. Because I didn't think it was the proper, the absolute—well, to be perfectly frank and candid with you, each piece of equipment in there that we felt was too high, we discussed it thoroughly with the representatives of the Government, and each piece that we felt was too low, we discussed that with them, and as I stated, we used that and worked from it. I don't know whether the Constructing Quartermaster did or not because he had his own equipment set-up, but we used that in arriving at and forming the basis for the price for the rent. In some cases we used it exactly, in some cases we had more, and in some cases less. But in the total I would say definitely that you will find it practically balanced as far as dollars and cents are concerned.

Mr. FULTON. And in figuring that out were you figuring it with the idea of making a profit on the rental of equipment in addition to your fee, or were you figuring on obtaining the cost of the equipment that you were giving to the Government?

Mr. McNAIRY. When we started this job, it was contemplated for 90 days. The rents that we were asking for I don't think would have developed a profit for us if the job had been completed in 90 days. The profit that developed on the equipment on this job has been due to its recapture.

Mr. FULTON. But it is your testimony that at the time that you intended to set up your rents, you were trying to set them up in such a way that you would obtain only your expenses and not a profit.

Mr. McNAIRY. The rents for 90 days I don't think would have developed a profit, but for a longer period of time they would have developed a profit, definitely.

Mr. FULTON. When you saw that they would develop a profit, did you notify the Army of that and of your willingness to make an equitable adjustment?

Mr. McNAIRY. No, sir; I did not.

Mr. FULTON. In your contract it provided, did it not, that the contractor shall furnish the materials, tools, machinery, and equipment not furnished by the Government? You were being paid a fee by the Government on the basis of the Government's paying the cost. Do you think that under the terms of that contract you were entitled in addition to this fee of \$430,000 over expenses, to a profit on your own equipment that you rented to them?

Mr. McNAIRY. Paragraph (6) of the contract also states:

Rates of rental as substitutes for scheduled rental rates may be agreed upon in writing between the contractor and the constructing officer, such rates to be in conformity with similar rates of rental charged in the particular territory in which the work covered by this contract is to be performed.

Mr. FULTON. Then it is your position——

Mr. McNAIRY (interposing). That I should get the same amount anybody else should get for the rental of equipment in that particular territory. It is in the contract, sir.

Mr. FULTON. If third parties renting equipment, who, very naturally, being in that business, would expect to receive a profit, were to receive a profit, then you expected to receive one, too, is that it?

Mr. McNAIRY. May I state so far as any third parties in this contract are concerned, all the equipment which we furnished after December was at a lower rate than any competitive bid that we received; as low or lower than any competitive bid we received.

Mr. FULTON. Yes; but my question is that if third parties expected to receive a profit, you expected to receive one, too?

Mr. McNAIRY. The third parties didn't put in a price; their prices were higher. We had a profit in it and their prices were higher than ours.

Mr. FULTON. You have quite a profit in yours.

Mr. McNAIRY. It is due, as I stated a few moments ago, to the fact that you recaptured all our equipment.

Mr. FULTON. And if it hadn't been recaptured, your profits would be higher than they are now, wouldn't they?

Mr. McNAIRY. No, sir; I say they would have been less. I am talking about the original contract.

Mr. FULTON. If this equipment hadn't been recaptured and you had practically the entire portion of it paid for by rental and then got the equipment back, you would have made an even higher profit than by setting the value of equipment at prices higher than you paid for it.

Mr. McNAIRY. I misunderstood you. I would have the equipment and the recapture price.

Mr. FULTON. And the rent, so if it hadn't been recaptured, your profit would be still greater.

Mr. McNAIRY. Yes, sir.

Mr. FULTON. My point is, your construction of this particular contract is that even though you were being paid this big fee, you weren't obligated to furnish your equipment to the Government at the cost to

you of furnishing it. In other words, that was not part of your contract obligation as you construe it.

Mr. McNAIRY. I don't think the word "cost" appears in there anywhere. In other words, the equipment should be put on there at a fair valuation and the rent, under clause (6), shall be the rate prevailing in the immediate vicinity.

Mr. FULTON. But the question I asked—and I understood you to answer it in the affirmative—is whether you expected to be free to make a profit on your equipment as well as making your fixed fee on the contract.

Mr. McNAIRY. You are trying to tell me what I thought, and I don't remember whether I thought that or not. I don't think I did. We were trying to get the job done and we were trying to set up equitable rental rates. I don't remember thinking, "I have to get a profit." We tried to get an equitable valuation and equitable rent.

Senator BREWSTER. Was the matter of possible rental of your equipment discussed when you negotiated the contract?

Mr. McNAIRY. I don't think it was specifically covered. You have it there, except the rate.

Senator BREWSTER. I didn't mean the contract; I mean was the question discussed at all?

Mr. McNAIRY. There is the question they asked about.

Senator BREWSTER. Which would imply that you might rent your equipment at those rates; that was the point, I suppose.

Mr. McNAIRY. That is correct, sir; I think that was the implication, that if any of our equipment was required that would be a fair rate to rent it for.

Senator BREWSTER. And I suppose in that rate it is assumed there is a profit, isn't it?

Mr. McNAIRY. That is ownership expense.

Mr. FULTON. That is supposed to be the contractors' idea of their own ownership expense after taking all their deductions, including depreciation and everything else out, but before including a profit on equipment.

Senator BREWSTER. Perhaps I am not clear about this thing, but the question to which you are addressing yourself is whether or not the rentals they got from the Government for the equipment they owned were fair.

Mr. FULTON. The question I was addressing myself to, Senator, is the fact that in the contract they agreed to furnish equipment to the Government, and it is a cost-plus contract. Their profit should be, or might well be said to be, in the fixed fee, the Government paying their expenses, including hire of labor and so on. My question was, Should not the Government also pay their expenses for their equipment but not give them a profit for equipment over and above and in addition to the fixed fee?

Senator BREWSTER. What did you gather was the intent of this question?

Mr. FULTON. The Army's intent in asking it? Other than the way the question is phrased, I wouldn't be able to say what their intent is, but Captain Richardson who will be on again will perhaps say that. I would have assumed they expected the contractor to rent at the rates specified in that schedule and not to add one-sixth to it, or not to change any of the schedules.

Senator BREWSTER. I gather that, but the point I was making is that I assume that schedule contemplates a profit to the lessor, doesn't it?

Mr. FULTON. That particular schedule is a contractors' schedule and it doesn't contemplate a profit in that. There might be one if the rates were overemphasized or the depreciation too large. But this is a schedule that contractors themselves have made up, not for the purpose of renting equipment but for the purpose of ascertaining their own cost of owning equipment and using it.

Senator BREWSTER. I thought this was a going basis for general contractors renting equipment. This is a sort of rule-of-thumb by which they govern themselves.

Mr. FULTON. There is a rental schedule which is a different schedule. In fact, there are four or five schedules. The Army itself prepared a schedule based on that one which is lower than that one.

Senator BREWSTER. Do you assume any of these schedules are not on a profit basis?

Mr. FULTON. This particular schedule is supposed to be set up on a nonprofit basis for the purpose of reflecting ownership expense and not rental. There is, however, a green schedule of the equipment distributors which is set up on the theory that they are in that business and should make a profit.

The CHAIRMAN. My understanding of the theory of this question, Senator, is that the fixed fee is supposed to be the contractor's profit in the construction of this job. This question was asked for the purpose of finding out if his cost for the rental of this equipment was satisfactory to him, and it is not intended there should be a profit in the rental of this equipment any more than there should be a profit to the Government.

Senator BREWSTER. Did I understand this gentleman to testify that he thought, while they departed from this schedule, if they took the over-all it would have been somewhat less? Wasn't that somewhat less?

Mr. McNAIRY. I would say it would be approximately the same as though we took every particular item.

Senator BREWSTER. You don't think it would exceed it?

Mr. McNAIRY. No, sir; I believe it would be slightly less, but I would rather say it would not exceed it. I mean plus one-sixth.

Mr. FULTON. What kind of a calculation did you make on which you base that?

Mr. McNAIRY. I took separate items and checked them, the ones I knew were over and the ones I knew were under. I didn't take the total units that we employed.

The CHAIRMAN. I think this contract ought to be made a part of the record.

(The document was marked "Exhibit No. 92" and is included in the appendix on p. 1889.)

Mr. FULTON. The contract originally required that the equipment would be rented on a schedule to be prepared by the Army, but that was crossed out of the contract.

Mr. McNAIRY. That is right, sir.

Mr. FULTON. That schedule was prepared and that was lower than the contractors' schedule because they deducted the repairs which the Government was obligated to make, and I wanted to know whether

you do not agree that the Quartermaster's schedule was lower than the contractors' schedule.

Mr. McNAIRY. You mean that white schedule?

Mr. FULTON. The white schedule.

Mr. McNAIRY. I agree that it is lower in effect. I don't know whether it is lower in every instance or not because I haven't checked each one; but it is a lower schedule.

Mr. FULTON. By taking the contractors' schedule you would in effect be paid twice for the repairs, once in the form of rental which was based on the theory that you would do the repairing, and a second time in the sense that the Government would do the repairs instead of obligating you to do it.

Mr. McNAIRY. I didn't study that white schedule for the simple reason that it only came to my attention sometime in December.

Mr. FULTON. You do know in the contractors' schedule there was an item for repairs, quite a substantial item?

Mr. McNAIRY. I think that is correct—major repairs.

Mr. FULTON. And you know in your contract the Government agreed to repair the equipment.

Mr. McNAIRY. They agreed to put it back in the shape that it came on the job.

Mr. FULTON. So in that sense, if you were only trying to get your cost of ownership, you were being paid twice for repairs.

Mr. McNAIRY. In the case of every repair that the Government made at Fort Bragg, they were making repairs on their own equipment because they recaptured it.

Mr. FULTON. But when you set up these rentals, the question I had in mind was whether you set them up on a fair basis.

Mr. McNAIRY. I think we did, sir, and that is due to the fact that when we set up these rents, we had a 90-day contract and it wasn't in anybody's mind that they would be recaptured. Now then, in setting up those rents and using them for 90 days, I don't believe we could have made any profit on the equipment for a 90-day period. We didn't get any bids on the equipment for less than 4 months. All the bids we got other than ours were higher, and that was for a minimum of 4 months, and we only had a 3 months' job then. You asked me whether we made any offer of adjustment when we found they were going to recapture the stuff. We would have loved to come back and cut your rents in half; we will do it today, because it takes twice the number of "1 percents" we have in the contract per month on recapture.

Mr. FULTON. In other words, you would rather take 50 percent of the recapture price and have the equipment back, thus having the 50 percent rental plus the equipment, than to have the Government buy the equipment at 20 percent more than you paid for it.

Mr. McNAIRY. I didn't say that. I said we would have been willing, after it developed the job was going to run as long as it was, to cut your rent in half, because it would take you twice as long as though you were going to recapture it. You asked me whether, when the 90-day period came along, we notified them it looked like we were going to make a profit because of the extended rental period. The Government learned it. If the rents were twice as high they would have saved money because they would have recaptured that much quicker.

Mr. FULTON. And I say again, isn't the answer to my question right, that you would rather have the equipment and rental of half the valuation price than to have the 20 percent profit and not the equipment; is that it?

Mr. McNAIRY. What 20-percent profit?

Mr. FULTON. The 20 percent you got in the recapture of trucks over and above the cost.

Mr. McNAIRY. I don't think so. You haven't deducted the expenses of the Equipment Co. and other things. You have taken the actual net dollar cost to the Equipment Co. and the actual valuation as set up on the books, and between those two figures you have established 20 percent, maybe, but it takes something to operate a business. We had to finance the purchase of those.

Mr. FULTON. Three percent of those.

Mr. McNAIRY. Three percent in our case.

Mr. FULTON. For how long?

Mr. McNAIRY. I don't know; probably in some cases 30, 60, 90 or maybe 120 days, or maybe 6 months.

Mr. FULTON. In other words, approximately 1 percent of the cost.

Mr. McNAIRY. For financing, we will say, but how about salaries and taxes and insurance of this Equipment Co.?

Mr. FULTON. The Government agreed to return that equipment. You didn't have to insure it, did you; and you didn't insure it, did you?

Mr. McNAIRY. Did I mention insurance?

Mr. FULTON. I thought you just now mentioned insurance.

Mr. McNAIRY. Insurance in the normal running of your business. You have got fire insurance, not only on these particular pieces of equipment but you have overhead costs.

Mr. FULTON. Mr. McNairy, how much did that Equipment Co. pay out in fire insurance premiums? Is it as much as \$100?

Mr. McNAIRY. I don't know, but if it didn't pay out but \$1, it is a deduction. There were a lot of items.

Mr. FULTON. Is it as much as \$100?

Mr. McNAIRY. I merely mention the fact that there are a lot of expense items in running any business. The one you might mention might not be but a dollar, another may be large, but in the aggregate there are expenses in running a business; there are salaries to be paid; there are taxes to be paid.

Mr. FULTON. What do the expenses of this Equipment Co. amount to today? What is the total?

Mr. McNAIRY. I think the expense ledger control has been somewhere around \$50,000 since its inception.

Mr. FULTON. And how much of that relates to the purchase of equipment?

Mr. McNAIRY. That I couldn't say. I don't have the break-down. We are going to get you a profit and loss statement but it will take about 2 weeks.

Mr. FULTON. Did it include the rection of a building?

Mr. McNAIRY. No; the real estate is set up separately.

Mr. FULTON. In any event, coming again to this question, Did you people under your contract feel free to make a profit on the equipment you, yourselves, owned?

Mr. McNAIRY. If these factors in our contract would develop a profit, yes.

Mr. FULTON. Did you feel free to make a profit on the labor? In other words, did you think you could go out and hire a man to work for \$1,000 a year and charge the Government \$1,200?

Mr. McNAIRY. The contract says I shall charge the Government for labor, what I pay for it. The contract says do so and so in the way of labor, and I think I have carried it out.

Mr. FULTON. What about material?

Mr. McNAIRY. The contract says whenever I pay a man 50 cents for brick, then the Government pays me back 50 cents.

Mr. FULTON. Then you make a distinction between equipment and materials and labor?

Mr. McNAIRY. I don't make a distinction between anything, sir. The conditions on this job developed this profit.

FORMATION OF THE EQUIPMENT CO. BY T. A. LOVING CO.

The CHAIRMAN. It was not intended, however, that you should form an equipment company and rent that equipment to the Government at a profit when the company was getting a cost-plus contract. You didn't do it with material; you didn't do it with labor. Why should you do it with equipment?

Mr. McNAIRY. We did not change the rate. The Equipment Co. got the same rent the T. A. Loving Co. got for it before the Equipment Co. was formed. The inception of the Equipment Co. was about a year before we had this contract. It was only actually consummated in December.

The CHAIRMAN. You bought over \$1,000,000 worth of equipment to rent to the Government, didn't you?

Mr. McNAIRY. No, sir. I think the total amount of equipment rented by T. A. Loving and the Equipment Co. was \$600,000.

The CHAIRMAN. Of which you bought over half.

Mr. McNAIRY. That is correct; the Equipment Co. bought over half, but the rates that the Equipment Co. received, the rental rates, were identically the same that the T. A. Loving Co. had received.

The CHAIRMAN. What I am contending is that the contract intended you should only charge the Government the actual cost of that equipment and not any profit on it, because you were receiving your profit in the cost plus, any more than you should charge a profit on labor or material, yet you did make a good profit on that, too.

Mr. McNAIRY. We did not buy the equipment for the Government, sir.

The CHAIRMAN. You bought it for the purpose of renting it to the Government on this specific job.

Mr. McNAIRY. That is correct, sir.

The CHAIRMAN. If you had owned the equipment, you would have used the equipment you owned on the job, wouldn't you?

Mr. McNAIRY. We put all the equipment we had on the job as soon as it developed as the first need of the T. A. Loving Co.

The CHAIRMAN. If it was going to be a profitable procedure, I don't blame you for doing it, but I think it is absolutely contrary to the spirit and the letter of the cost-plus contract.

Mr. FULTON. Did you know the Army made a distinction between equipment that was furnished by contractors and equipment that was furnished by renters of equipment?

Mr. McNAIRY. Yes, sir.

Mr. FULTON. Did that have anything to do with your organizing this Equipment Co. as a separate company?

Mr. McNAIRY. It did not, sir.

Mr. FULTON. You say that you contemplated that company for more than a year before you organized it?

Mr. McNAIRY. That is correct, sir.

Mr. FULTON. Have you anything at all in writing before the date of its organization?

Mr. McNAIRY. There was nothing in writing until December 6 when the partnership papers were signed.

Mr. FULTON. That is nearly 3 months after the contract was signed by the T. A. Loving Co. for the construction of the camp.

Mr. McNAIRY. Approximately 3 months; yes.

Mr. FULTON. And this Equipment Co. bore a title which did not contain the name "Loving"; is that not correct?

Mr. McNAIRY. That is correct; it was just Equipment Co.

Mr. FULTON. It was a partnership, was it not?

Mr. McNAIRY. It was a partnership; yes.

Mr. FULTON. And the three groups which held the stock of the T. A. Loving Corporation owned the same proportion of stock in the partnership?

Mr. McNAIRY. They did; yes.

Mr. FULTON. Although the individuals comprising each of those groups owned varying amounts, not always proportionate to the amount of stock they owned in the T. A. Loving Corporation?

Mr. McNAIRY. That is true; the McNairys and Lovings and Bryans wound up with the same amount they had in T. A. Loving.

Mr. FULTON. Did you inform the constructing quartermaster that the company, that is, this Equipment Co., was associated in any way or connected in any way with the T. A. Loving Co.?

Mr. McNAIRY. Yes, sir; we did.

Mr. FULTON. Would you tell us how and to what extent?

Mr. McNAIRY. We discussed it fully and thoroughly with Colonel Simpson who was the constructing quartermaster at Fort Bragg. He was thoroughly familiar with the fact that T. A. Loving and the Equipment Co., as far as groups were concerned, were the same and owners in the same proportion. I was the representative of the T. A. Loving Co. at Fort Bragg and had full authority, and I was also the representative of the Equipment Co. I signed all contracts, one name right above the other, and it was all aboveboard that I was C. B. McNairy in the Equipment Co., and I was C. B. McNairy in T. A. Loving Co.

Mr. FULTON. Did you inform the Quartermaster Corps in Washington, say Captain Richardson who had a duty to examine these various records and might be misled by not having a different name?

Mr. McNAIRY. We did not contact anybody in Washington except through the constructing quartermaster on the job.

Mr. FULTON. So you wouldn't know whether Captain Richardson knew that the Equipment Co. was not in fact a third party?

Mr. McNAIRY. I wouldn't know that.

Senator BREWSTER. Have you been into the question of the profit of the Equipment Co.?

Mr. FULTON. I was just going into that, Senator.

This Equipment Co. had how much capital invested in itself?

Mr. McNAIRY. To start with, \$50,000 in cash.

Mr. FULTON. Of which \$37,000, I believe, or approximately that, was at once turned back to the Loving Corporation as part payment for the equipment that you took over.

Mr. McNAIRY. That is correct, sir.

Mr. FULTON. That left you \$13,000 in money.

Mr. McNAIRY. That is correct.

Mr. FULTON. That is what you might term working capital. Did you ever put any more working capital in that?

Mr. McNAIRY. No more cash from the partners. We borrowed considerable money on personal endorsement from banks and other lending institutions.

Mr. FULTON. How much did the Equipment Co. make on the \$13,000 net working capital?

Mr. McNAIRY. I haven't prepared—the partnership wasn't organized until December 6 and we do not have a profit-and-loss statement. You asked for it on the 21st and we have an auditor now coming in to make you up a profit-and-loss statement as of the 25th. That was the date I wrote—as of the 25th of this month. It will take a little time to do it because it is not the end of the fiscal period or year or anything else, and we didn't know you wanted that until on the 21st.

Mr. FULTON. What is your estimate of that?

Mr. McNAIRY. You have the balance sheet and your estimate would be as good as mine. I don't know a thing in the world about what it is. That is just a trial balance I took off the books for your information. We wouldn't know definitely whether its is profit or not, because, as far as our books are concerned, a lot of this equipment has not been recaptured because we do not transfer title to it until it has paid for itself 100 percent. Although we have been informed that they are going to recapture it all, it still hasn't been recaptured and the income from rentals is put into an account for rentals and for recapture. So we don't know whether it is recapture or whether it is purchase, as yet, so far as the books will show.

Mr. FULTON. What is the excess of your assets over your liabilities, according to your trial balance?

Mr. McNAIRY. I don't know. I couldn't make a statement. Will you look at this a second? I don't know. In other words, here are our assets, here is our equipment, autos and trucks. We don't know whether that is income or purchase. We can assume that it is only purchase. They won't buy all our equipment because we are renting to other people. All our equipment is not at Fort Bragg.

Senator BREWSTER. Where they took all your equipment, you have that amount.

Mr. McNAIRY. I probably have that, but they can't take all our equipment because we rent to other people besides the Government. With the equipment we have rented to other people, there is a total of \$126,000.

Mr. FULTON. You would either have the equipment or you would have the payment for it, isn't that right? You have one or the other.

Mr. McNAIRY. That is true.

Mr. FULTON. So, isn't it fair to take your trial balance as it is, which would indicate by deducting \$50,000—what is this \$53,000?

Mr. McNAIRY. That is pure expense.

Mr. FULTON. That would indicate you have assets over and above liabilities of about \$583,000, would it not?

Mr. McNAIRY. I never tried to make a balance sheet out of a thing like this. I don't know whether it does. The figures you read there look correct, and what they represent, I don't know.

Senator BREWSTER. You are a pretty competent businessman and I think you must have an idea whether you are making or losing money in that outfit.

Mr. McNAIRY. We are, yes; definitely; I admitted that, and quite considerably.

Senator BREWSTER. So that there was a pretty substantial profit.

Mr. McNAIRY. There was, yes, sir; as I admitted before.

Senator BREWSTER. Whether it is \$583,000—

Mr. McNAIRY (interposing). I wouldn't say. We have made an appreciable profit, a very large profit.

Senator BREWSTER. Which was on a cash investment of \$13,000 after you turned your equipment over.

Mr. McNAIRY. No, sir. These individuals, may I say, put in \$50,000 in cash.

Senator BREWSTER. I know, but they immediately turned over \$37,000 worth of equipment.

Mr. FULTON. Thirty-seven thousand in payment for equipment to Loving.

Mr. McNAIRY. That wasn't paid back to the stockholders. That wasn't paid back to the partners. It was paid to T. A. Loving & Co. for certain equipment, just like you bought some equipment from somebody down the street.

Senator BREWSTER. But you got rid of your equipment. You had \$37,000 worth of equipment in T. A. Loving Co. which you turned over to this outfit which had the same stockholders.

Mr. McNAIRY. Oh, ninety-seven thousand. The partnership gave a note for the balance.

Mr. FULTON. The point I was making was, if you take your trial balance sheet and deduct from that all the expenses that you have, it shows assets of around \$583,000, and since you started with \$50,000, that would indicate your profit, even though it must necessarily be a rough estimate, is something over half a million dollars.

Mr. McNAIRY. I don't believe it is anything like that. I know it is an appreciably large profit. I can give you the exact figures in a very few days, right to the penny.

Mr. FULTON. How much less than that would you anticipate they would be, and on what basis could they be less than that if that trial balance is correct?

Mr. McNAIRY. Just this; I don't know what it is. Do you mind if I just accept your figure? I don't think it is that much.

Mr. FULTON. Is there anything wrong with the trial balance?

Mr. McNAIRY. I want to get in the record that I don't think it is that much, but if you want to call it 580, all right, sir.

The CHAIRMAN. We will give you the privilege of putting in the correct figure.

Mr. McNAIRY. That is fine. I am having that prepared.

Mr. FULTON. I was trying to ascertain how much it was. I don't see how it could be that much.

Mr. McNAIRY. I don't either.

Mr. FULTON. Do you rent a lot of equipment on other camp projects?

Mr. McNAIRY. No, sir; not on other camp projects. We rented equipment on other projects. This doesn't represent just Fort Bragg.

Mr. FULTON. As I understand it, you bought about half a million dollars worth of equipment for Fort Bragg. How much did you buy for other places?

Mr. McNAIRY. That I can't tell you, sir, right off the bat, but I can get it for you.

Mr. FULTON. Is it a large amount, Mr. McNairy?

Mr. McNAIRY. Yes; a very large amount because we have to replace all of our equipment you have taken away from us. You see, we are still in the contracting business and the only way in the world we can be in the contracting business is to get more equipment, and we have probably bought here, oh, I would say at least three or four hundred thousand dollars worth of equipment more than we have furnished to Fort Bragg. Part of this has been recaptured. The Fort Bragg stuff has been recaptured. They started recapturing it back in the early spring—some of the trucks and stuff—but a lot of it still has not been. That is the reason that account is rather confused, but as of the 31st, the War Department will have to recapture or release and they have indicated they are going to recapture all our equipment because that is the end of the contract, and right after that we can tell exactly what went into Fort Bragg.

Mr. FULTON. Then I take it part of the profit was made on equipment used on other projects than Fort Bragg.

Mr. McNAIRY. Yes, indeed.

Mr. FULTON. But even so, that would be a very high profit, and I don't see how you can make such a profit.

Mr. McNAIRY. I say I don't think it can be that much.

The CHAIRMAN. We will let you put the correct figures in the record.

Mr. FULTON. In buying equipment, I notice you bought equipment at lesser prices than you set up the values. Can you tell us why that was done?

Mr. McNAIRY. We set up values—you are talking about trucks?

Mr. FULTON. The International trucks.

Mr. McNAIRY. The resale list price we used as a fair value.

Mr. FULTON. Seventeen hundred eighty dollars.

Mr. McNAIRY. That is correct.

Senator BREWSTER. If you were dealing with anybody else, that is all right, but when you were dealing with yourself as an agent of the Government, it presents a little different question.

Mr. McNAIRY. I had to deal with myself to start with. The equipment the T. A. Loving Co. actually owned we valued on the same basis.

Mr. FULTON. You mean you valued the used equipment on a basis higher than your cost?

Mr. McNairy. No, sir; I did not say that. I said that the valuation of an International truck, the one you mention there—if you will call out the number, we can identify it.

Mr. FULTON. There were a couple of dozen. Take L-1, 1941, International 2-ton dump truck, purchased new, the valuation \$1,787 and your cost \$1,481.

Mr. McNairy. Now, what I said is this, that if T. A. Loving Co. owned the truck and if that truck was put on the job prior to the transfer to the Equipment Co., we used \$1,784, or the figure that you mentioned, as valuation for T. A. Loving Co. The Equipment Co. comes along and buys a similar truck and we use the same valuation for the Equipment Co., or a third party. The valuation of the truck doesn't vary, regardless of who owns it. This is valuation, not cost. We didn't buy it for the Government. We rented it to the Government, and when T. A. Loving Co. did it, we had no conception that it would be recaptured or it could be considered that we were purchasing it for the Government.

Mr. FULTON. That value is furnished to the Government for the purpose of setting up that recapture clause.

Mr. McNairy. That is correct, sir, and I think it is a fair value—the retail list price. You may not, I don't know.

Mr. FULTON. Although it was \$306 more than you paid for it?

Mr. McNairy. Absolutely, yes.

Mr. FULTON. And added to that the Government paid you not only your recapture value but it paid you 1 percent for each month the equipment was there.

Mr. McNairy. They didn't have to. I would like to have it back and let them have the rent.

Mr. FULTON. But the result of that was that you got \$377 more than you paid for the truck.

Mr. McNairy. I figure it was approximately that, somewhere around that.

Senator BREWSTER. Was this, did you say, gone over pretty thoroughly with your constructing quartermaster there?

Mr. McNairy. In detail.

Senator BREWSTER. He knew that you were getting this possible profit?

Mr. McNairy. As to cost, no sir; I didn't discuss costs with him at all. We arrived at a fair valuation of it. We arrived at the valuation to be set up.

Senator BREWSTER. Was he aware of the fact that you were buying it for quite a little less than that?

Mr. McNairy. I don't know to what extent he was aware of that. He was bound to know T. A. Loving Co. paid cash for everything they bought and were bound to get some discounts for cash, and in the volume of business we do, we are bound to get some certain contractors' discounts.

Senator BREWSTER. If this were purely an agency agreement, you would recognize that the Government should have the benefit.

Mr. McNairy. If I were buying this truck for the Government, I would only ask the Government for reimbursement on the \$1,200, whatever the figure is, our cash outlay.

Senator BREWSTER. Seventy percent of the Equipment Co.'s business was done with the Government, wasn't it?

Mr. McNAIRY. No. Well, yes; that is up to the present time.

Senator BREWSTER. So that for all practical purposes, this was operating for the Government. Did you have any officials of the Equipment Co. outside of your own concern?

Mr. McNAIRY. No, sir.

Senator BREWSTER. So that you were the representative of the concern on the job, weren't you?

Mr. McNAIRY. Yes, sir.

Senator BREWSTER. And doing both jobs, you weren't paid by the Government?

Mr. McNAIRY. No, sir.

Senator BREWSTER. In other words, you were supposed to be the full-time representative of the Loving concern on this job, looking after the construction of this job for the Government?

Mr. McNAIRY. There was no requirement as to my time. I did furnish all of my time.

Senator BREWSTER. Didn't your contract stipulate there should be one full-time man on the job?

Mr. McNAIRY. I was not the project manager. The project manager was another person, but I stayed there in addition to him.

Senator BREWSTER. Was the project manager paid by the Government?

Mr. McNAIRY. He was paid by the Government; yes, sir.

Senator BREWSTER. In most of these contracts I have seen there is a stipulation that the contractor shall have one full-time executive on the job. Wasn't that it?

Mr. McNAIRY. I don't think ours covers that. I don't remember seeing it.

Senator BREWSTER. That was in the contract for the Blanding job.

Mr. FULTON. I don't think the contract provided that, the negotiations provided it; but in theory they should provide not only one but as many as are necessary.

Mr. McNAIRY. I think the engineer-architect contract provides for that, but I don't think the general contract provides for that.

Senator BREWSTER. You mean to say as far as the contract is concerned your project manager was the only one that needed to be furnished?

Mr. McNAIRY. Will you repeat that, sir?

Senator BREWSTER. That as far as your contract was concerned, you could have fulfilled it by simply furnishing a project manager, paid by the Government—

Mr. McNAIRY (interposing). And giving the necessary supervision to the job that we thought necessary or that the Government thought necessary. I think that was definitely implied, but as far as the contract was concerned, it doesn't require that I stay there 1 hour or 10.

Senator BREWSTER. We have tried in these various projects we have gone into to find out what the contractor was to furnish for his fee, and I thought we reduced it down to a minimum that he at least would have to have one full-time executive on the job looking after the thing, and now, according to you, we didn't get that.

Mr. McNairy. You did get that, and in addition to that you had around 50 percent of the services of the other officers.

Senator Brewster. I gather that was a gratuity to the Government on your part. You didn't have to furnish it.

Mr. McNairy. No; it was not. I think it was necessary, and we never felt for a minute that it was a gratuity or that we were doing anything more than we were called upon to do or we felt was necessary to do, and if they had required more than that we would be glad to do it without thinking of it as a gratuity. We didn't have that conception.

Senator Brewster. I didn't mean you hadn't fulfilled your obligation. The difficulty I had was where you were doing this job which you recognized was a considerable responsibility, you were on the side making some considerable profits, and you are not clear whether or not the representative of the Government was aware of the extent of those profits or not. You see the kind of complicated situation that is presented.

Mr. McNairy. May I make this statement? I did not run the Equipment Co., but I did sign the rental agreements and things of that kind, which took up but a very short part of my time away from the services of running the contracts. I did not attempt to run that. I didn't mean to imply that I was running the Equipment Co., because the offices and warehouses and everything else are in Goldsboro. Are the actual words here that I shall spend so many hours or so many days? I don't think it is in here. I have never seen it. But I do think the contract clearly covers the services of the contractor and all of his officers.

Senator Brewster. The executives of the company?

Mr. McNairy. Without reimbursement.

Senator Brewster. I wasn't raising the question about the amount of time you put in on either job. The point was the dual function you were fulfilling, you see, of running this job for the Government for a fee approaching a half million dollars and at the same time running a private concern which was making substantial profits out of the Government at the same time. That is a complicated thing. If the Government representatives were fully advised of this whole thing, the responsibility might well rest on the Government, but if the Government representatives were not fully advised, as you may conceive, it presents problems.

Mr. McNairy. I think definitely, at least in my own mind, there would be no thought but that the Quartermaster and everybody else who was interested were thoroughly advised. I think there wasn't anything that everybody didn't know exactly. We owned the Equipment Co., which was a subsidiary of the T. A. Loving & Co. and owned by the same officers and, as far as groups were concerned, in the same proportions, and it was the equipment part of the T. A. Loving & Co., in effect.

Senator Brewster. I think you make a very dangerous admission there.

Mr. McNairy. The purpose of organizing it was to take over the equipment of T. A. Loving & Co.

Senator Brewster. When the Government was paying you a half million dollars to run this job, I think that the Government ought

to have had the full benefit of your services and your agencies, your subsidiaries and your employees, as far as this job was concerned. If you had a company or an officer who was doing something outside, making some money, all right; but as far as this job was concerned, when we paid you a half million dollars, I think we ought to have had the full benefit of your whole outfit.

Mr. McNAIRY. If we had changed, if there had never been an Equipment Co., and the T. A. Loving & Co. had furnished the Government every bit of the equipment that T. A. Loving & Co. and the Equipment Co. furnished the Government, it wouldn't have meant a minute's difference in my time and services, and it wouldn't have meant a penny's difference to the Government as to the cost of the equipment that they secured—not one iota in time or cost to the Government. I can't see it.

Senator BREWSTER. I think in that event, if T. A. Loving & Co. had handled all this equipment as their own, you clearly wouldn't have been entitled to charge anything more than cost.

Mr. McNAIRY. Why, sir? I am not entitled to charge the Government anything more than cost for purchases that I make for the Government, but when I rent the equipment, my contract tells me that I am.

Senator BREWSTER. Why do you distinguish between rental and purchase?

Mr. McNAIRY. There is a gamble in the rental of the equipment. You have a right to recapture. We don't need two-hundred-and-some-odd trucks in our business, but if we go out and rent two-hundred-and-some-odd trucks tomorrow, when the emergency would cease, you have the right to cancel our contract, and we would be left high and dry with two-hundred-and-some-odd trucks. You can imagine what would happen. We would go busted before we could ever get closed up, because they would be second-hand trucks. You wouldn't have paid me enough money. In other words, if I hadn't used them but a week, they still would have been second-hand trucks and you would have paid me 1 week's rental on them, and would have my yard full of equipment.

The CHAIRMAN. You might use the same argument on the employment of labor. You had a yard full of labor and all the rest of the stuff.

Mr. McNAIRY. I would stop paying the labor, sir. I couldn't stop paying for my equipment.

The CHAIRMAN. But you had just as much right to a large profit on the labor as you had on the equipment.

Mr. McNAIRY. I think my contract states clearly about that. My contract states that I am to be reimbursed for cost for labor. It says I shall be reimbursed for cost for material, and it says I shall be paid the rates of rentals charged in the particular territory in which the work is being performed.

Senator BREWSTER. For equipment.

Mr. McNAIRY. Yes, sir. It says so in the contract. I may not be a lawyer and may not know the legal end.

Mr. FULTON. In negotiating that contract, Mr. Loving has answered that he felt it was at least equitable as to the ownership expense rates of that associated general contractor's schedule, and doesn't that mean that the underlying theory was that the contractor would charge for

rental rates so that he would obtain his expense for his equipment and not a profit? Isn't that the underlying theory?

Mr. McNairy. May I bring out something else?

The CHAIRMAN. I want to ask Captain Richardson a question. Did you understand that there was to be a profit in the rental of this machinery to the contractors who were building these camps?

Captain RICHARDSON.¹ No, sir; I understand that it was not the intent of the Government for the contractors to make profit on the construction equipment they owned and furnished to fixed-fee projects.

The CHAIRMAN. Just the same as labor and other materials.

Captain RICHARDSON. That is right.

Mr. FULTON. In other words, you made a distinction, Captain Richardson, between equipment owned by the contractor and furnished to the Government and equipment rented by the contractor from people who rented equipment and didn't get a fixed fee.

Captain RICHARDSON. We then established our own schedules of rentals in the Quartermaster Corps, as I stated yesterday.

Mr. FULTON. But you did have the distinction between the contractor-owned equipment and the third party-owned equipment.

Captain RICHARDSON. Absolutely. We had a form approved by the Secretary of War for that purpose, and all contracts in which the third party owned the equipment were executed on that particular form. The third party rented on the schedule rates on competitive bids just that way.

Mr. FULTON. In going over these particular matters as to Fort Bragg, did you know that the Equipment Co. was a contractor-owned company or was affiliated with the contractor?

Captain RICHARDSON. I think I can give you the exact date of that, if I may look in my file.²

Mr. McNairy. I would like to make a statement in connection with this profit. I made this statement before. This profit is due to the fact that you recapture the equipment. During the depression years Mr. Loving bought a tremendous amount of equipment at a very low price.

The CHAIRMAN. It doesn't make any difference what the profit is due to. My contention is that you were an agent of the Government, that you didn't have any more right to make a tremendous profit on this machinery contract than you had to make on labor contract or any other contract for which you were responsible to the Government, and I think that the captain has very clearly stated the case that the War Department did not anticipate the contractor's renting equipment to the Government for use on his own job and charging the Government a profit on that equipment. I don't care how the profit was made, I don't think it was justified.

Mr. FULTON. What was the name—

Mr. McNairy (interposing). May I finish the statement?

The CHAIRMAN. Surely.

Mr. McNairy. In one particular instance we bought on sale for \$250 equipment which I don't think anybody would value at less than ten or twelve thousand dollars. We carried that equipment on our books—

¹ R. L. Richardson, Quartermaster Corps, United States Army, whose testimony appears on pp. 1665-1696, *supra*, and pp. 1731-1747, *infra*.

² June 27, 1941, see *infra*, p. 1718.

this lump-sum group of equipment—straight through at \$250. When we go out to rent equipment, should we take this \$10,000 worth of equipment—I don't think anybody would say it was worth less than \$10,000—and tell the Government that we will rent it to them for \$250, with a recapture clause at \$250? The equipment was set up at a fair evaluation. The books show it was worth, we will say, \$250, and a fair evaluation is \$10,000. When you recapture it at \$10,000, it shows a book profit on that particular item, but that transaction might have happened 2 or 3 years ago. We didn't go out and buy second-hand equipment. I think Captain Richardson will agree with me that he didn't find anybody that bought second-hand equipment.

Captain RICHARDSON. I don't think any person would buy used equipment unless he thought he had an original bargain or was buying it for less than its actual worth.

That date was June 27, 1941. It was reported by Captain Stoltz, of the zone constructing quartermaster's office at Atlanta, Ga., and it is under the jurisdiction of that zone.

Senator BREWSTER. That was the first time it came to your attention at the central office?

Captain RICHARDSON. My central office here; yes, sir.

Senator BREWSTER. I think I can appreciate how all these situations developed in the new ground we were all moving into in this field, and from the very excellent reputation which your concern and associates have enjoyed, I am sorry that the thing has developed just as it has, although I can appreciate how you acted in the best of faith in the matter. But it does present an awkward situation, I think, when you look now back at the net result of this situation. Hindsight is perhaps easier than foresight, but I think if the Government or anyone else could have anticipated how this thing was going to eventuate, they would have felt that the possible profits of a million dollars, which seems to be indicated here instead of a half million, were getting into a good deal of money for the job.

Mr. McNAIRY. I have nothing, sir, to say in connection with that. The only thing more that I can say is that everything we have done is absolutely clear and aboveboard. We haven't tried any subterfuges or anything like that.

The CHAIRMAN. We are not accusing you of that.

Mr. McNAIRY. Anything that has developed might have developed exactly the opposite way. They could have. If you had canceled our contract, we would have stood a heck of a loss. You don't believe the committee or the War Department would have been any too anxious to reimburse us for it.

Senator BREWSTER. It is one of those things.

Mr. FULTON. In fairness to equipment renters, that is one of the troubles with the particular arrangement the Government had. You had no guaranty of even the use of this equipment by the Government on this particular job.

Mr. McNAIRY. No, sir.

Mr. FULTON. And if you were expected to go out and invest a half million dollars or more in new equipment for this job, with the Government's having the right to continue you as contractors on the job, but to put someone else's equipment on the next day, it would put quite a risk on you that perhaps is reflected in your rental rates that you set

up for the Government, because usually if you ask for a risk to be assumed, the person assuming it has to be compensated for that risk.

Mr. McNAIRY. I don't think you will find that as much profit has been made in the rental rates as you seem to imply, because they were less than any other rental rates.

Mr. FULTON. You keep telling us you would much rather have the equipment.

Mr. McNAIRY. I had. The value is still in them. The value is still in that equipment, sir, and I can't get new equipment.

Senator BREWSTER. That, of course, refutes your suggestion that you are taking a risk.

Mr. McNAIRY. What did you say?

Senator BREWSTER. That refutes your suggestion that you were taking a risk in the Government's possibly not recapturing. Now you say you prefer that they don't. I thought the reason you justified this profit was that you were taking the hazard of a loss.

Mr. McNAIRY. I mean equipment. I am willing to pay more. If Captain Richardson wants equipment, he can't get it, and I am willing to pay more than the Government paid me for this equipment for the use of it.

Mr. FULTON. For the use of it on another Government project?

Mr. McNAIRY. Sir, we have several contracts that are not Government contracts, and we are out in competitive bidding every day.

Mr. FULTON. I think you got a new contract from the Government the other day.

Mr. McNAIRY. Yes, sir; we hope to get more.

Mr. FULTON. That contract was for \$16,000,000 or something more than that, wasn't it?

Mr. McNAIRY. The contract that you speak of?

Mr. FULTON. Yes.

Mr. McNAIRY. I think it was possibly \$14,000,000.

Mr. FULTON. For what project?

Mr. McNAIRY. For the Navy Department, Bureau of Yards and Docks, for the Marine Air Base on the Neuse River, below New Bern, N. C.

Mr. FULTON. Is that a cost-plus project?

Mr. McNAIRY. Cost-plus fixed fee.

Mr. FULTON. What is the fixed fee?

Mr. McNAIRY. \$410,000.

Senator BREWSTER. Is there any stipulation about equipment?

Mr. McNAIRY. There are two pages of stipulations. It is entirely different from this set-up. They specifically state that the equipment—I had better read that to you. We just copied that out of our contract day before yesterday.

(Five-minute recess.)

Mr. FULTON. Mr. McNairy, I note that in the case of the Navy, there is an express provision in here that, as to equipment owned or controlled by the contractor, you should not be allowed a profit.

Mr. McNAIRY. That is correct.

Mr. FULTON. When you refer to such equipment so owned or controlled by the contractors, you mean to include the equipment owned by the Equipment Co., do you not?

Mr. McNAIRY. Yes, sir.

Mr. FULTON. What is the name of the equipment company?

Mr. McNAIRY. The Equipment Co.

Mr. FULTON. And you wouldn't claim, for example, exemption from this article 7 on the theory of separate identity of those two companies?

Mr. McNAIRY. In our application for this job, in the list we filed, we listed the Equipment Co. as being controlled by T. A. Loving Co. That is on record in the Navy Department.

The CHAIRMAN. Will you put this stipulation in the record?

(The document referred to was marked "Exhibit No. 93" and appears in the appendix on p. 1912.)

Mr. FULTON. In addition to that job, you had, I believe, some housing contracts, did you not?

Mr. McNAIRY. That is correct, sir.

Mr. FULTON. What would you estimate the total to be of your business with the Government, including the Bragg and the new naval project?

Mr. McNAIRY. Well, we have the Bragg contract, amounting to \$39,000,000. That was the project. The actual construction was approximately \$37,000,000. And this project is about \$14,000,000. And the Wilmington projects, I think, are approximately \$1,800,000. Approximately fifty-two or fifty-three million dollars.

Mr. FULTON. Including the Navy project?

Mr. McNAIRY. Including the Fort Bragg job, which has been completed; and the Navy job, which has not been started; and including the Wilmington projects.

Mr. FULTON. Does that include any projects that have been completed?

Mr. McNAIRY. Nothing, except the Fort Bragg project. That is all you asked about—the three projects.

Mr. FULTON. Then something over \$50,000,000?

Mr. McNAIRY. Yes, sir.

Mr. FULTON. How does that compare with the bulk of the business that you had before you got these Government contracts, in 1938 and 1939?

Mr. McNAIRY. For 1938 to 1939, you have the figures there. For the last year I think probably 10 times greater than what we did in 1939, before we got the Fort Bragg job.

Mr. FULTON. And you did even less business in 1938.

Mr. McNAIRY. Before, yes. The further back you go, the smaller business you get, because we were only incorporated in 1937.

Mr. FULTON. Did you hire any intermediary or representatives of any kind?

Mr. McNAIRY. Nothing except our regular representatives.

Mr. FULTON. And did any of those regular representatives have any Army connection?

Mr. McNAIRY. Our attorney here was Gen. Albert L. Cox, who had been our attorney for about 10 or 12 years, and we prepared the first submission to the War Department and Navy in his office and, I think, it was on his stationery, if I am not mistaken, when we submitted it to the War Department.

RECAPTURE EVALUATION OF EQUIPMENT

Mr. FULTON. Of course, we have been asking you about the equipment that you bought and rented to the Government under recapture valuation in excess of what you paid for it. I suppose it is only fair to your company to refer to the other principal acquiring equipment for Fort Bragg—E. W. Graniss—and I note in their letter to the committee, that they adopted the same practice. Were you aware that the other equipment company was valuing the equipment at more than its cost?

Mr. McNAIRY. We used the same, I think, for International trucks, which you brought out. I am positive he used the same figure for the same model and year International truck in its evaluation that T. A. Loving used. I don't know what his discounts were. I don't believe they were as much as mine. I am sure that he is a responsible contractor, has a lot of money, and I am sure he paid cash and should have got his cash discount. Whether he took advantage of those, I have no idea.

Mr. FULTON. That is a Fayetteville concern.

Mr. McNAIRY. Yes, sir.

Mr. FULTON. Did you have any talk with any of them concerning this question?

Mr. McNAIRY. Of cost?

Mr. FULTON. Of cost and evaluation.

Mr. McNAIRY. No, sir; I didn't.

Mr. FULTON. Did you discuss with him the evaluation of it?

Mr. McNAIRY. Evaluation? Yes, sir.

Mr. FULTON. And what was the substance of that?

Mr. McNAIRY. The substance was I told him that the evaluation on a piece of new equipment could not exceed its retail list price, and so he put it at that.

Mr. FULTON. Did he talk about whether it might be less than that?

Mr. McNAIRY. I don't think he wanted to take it at that, sir.

Mr. FULTON. I notice here on a motor grader, for example, that he paid \$4,000 for it and put in a recapture value of \$5,750, which was 43 percent more than the cost, and then it was actually a grader, though, that had a retail price higher than that—\$6,505. Did you know that particular piece of equipment?

Mr. McNAIRY. I went over every one of them. I don't know that particular one, there were so many pieces. But I am familiar with every piece of equipment that came on the job at one time, when we actually came on the job or when we negotiated for it, when we all cast bids for it and got the approval of the constructing quartermaster to rent it and put it on the job. I don't remember individual items now.

Senator BREWSTER. You have accepted this Navy job on quite a different basis, haven't you?

Mr. McNAIRY. Yes, sir.

Senator BREWSTER. You feel that that was advantageous to you?

Mr. McNAIRY. Yes, sir.

Senator BREWSTER. And you will plan to protect the Government as far as possible on costs of this character in dealing with outside concerns, I assume?

Mr. McNAIRY. Yes, sir.

Senator BREWSTER. But if you are able to stipulate recapture at the cost rather than at the retail price, it would make considerable difference to the Government.

Mr. McNAIRY. There is no recapture clause in the rental contracts with the Navy Department unless they insert them at the time of the negotiation. There is no recapture clause in our contract.

Senator BREWSTER. I am speaking now of dealing with outside.

Mr. McNAIRY. I am not familiar with the Navy procedure. We have just gotten the job. If they have third party agreements, then we will carry out the terms of the third party agreement. I am not familiar with what they do now. I have never seen one.

Mr. FULTON. The Grannis schedule shows a great many items of that kind.

Mr. McNAIRY. I suspect so, because he bought up most of the grading equipment in the past 5 or 6 years. I imagine he has about the largest grading equipment.

Mr. FULTON. I was talking about new equipment which he bought in 1940 and 1941.

Mr. McNAIRY. That I don't remember, because I didn't ask Mr. Grannis his cost.

Mr. FULTON. The International trucks look about the same. He has a value of \$1,887, and he paid \$1,438. And he has a Ford truck valued at \$1,100 for which he paid \$826, and a Ford truck valued at \$1,300, for which he paid \$1,065, so the practice, at least, was not confined to your company.

Mr. McNAIRY. I would say definitely, sir—that is what he called a third-party contract—that Mr. Grannis in almost every instance was lower than any other equipment dealer, and he was one of the people who had the equipment.

The CHAIRMAN. Mr. Royall, will you be seated over here? You said you wanted to ask Mr. McNairy some questions.

Mr. ROYALL. Yes, sir; I would like to ask Mr. McNairy a few questions merely for the purpose of possibly clearing up his position.

The CHAIRMAN. Will you give your full name to the reporter?

Mr. ROYALL. My name is Kenneth C. Royall, of the firm of Royall, Gosney, & Smith, attorneys, of Raleigh and Goldsboro, N. C., and in this hearing I am here as counsel for the T. A. Loving & Co.

The CHAIRMAN. You understand this is an unusual procedure, but we are extending this courtesy to you.

Mr. ROYALL. I realize the committee is showing me the courtesy, and I appreciate it. The only purpose is to try to make clear Mr. McNairy's position, if I can.

Mr. McNairy, in this contract which you entered into with the United States Government in September of 1940, there is under article 2 a provision for reimbursement of contractor's expenditures. Does that require you to get reimbursement only for the actual cost of the articles mentioned thereunder? Is that right, sir? That is the reimbursable items?

Mr. McNAIRY. Repeat the last part of the question.

Mr. ROYALL. Does that provide that you get merely your actual costs for those reimbursable items?

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. Those items include labor, materials, and certain other enumerated matters. Is that correct, sir?

Mr. McNAIRY. That is correct.

Mr. ROYALL. It does not include rental of equipment, does it?

Mr. McNAIRY. No, sir.

Mr. ROYALL. Rental of equipment is dealt with in an entirely separate paragraph, which expressly provides that the contractor can rent, in effect, to himself equipment on the job. Is that correct, sir?

Mr. McNAIRY. That is correct.

Mr. ROYALL. It prescribes the method by which that rental can be determined.

Mr. McNAIRY. That is correct.

Mr. ROYALL. It says it shall be at rates approved by the contracting officer.

Mr. McNAIRY. That is correct.

Mr. ROYALL. As I understand it, the equipment which T. A. Loving & Co. rented and the equipment which its subsidiary Equipment Co. rented, was rented as contractor's equipment at rates approved by the contracting officer. Is that correct, sir?

Mr. McNAIRY. That is correct. There is no difference whatsoever in either one of them.

Mr. ROYALL. Those rates you have testified in total correspond with the A. G. C. bulletin?

Mr. McNAIRY. That is right, sir.

Mr. ROYALL. And that was the one referred to in your questionnaire.

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. The contract also expressly deals with the right to recapture this equipment, does it not, sir?

Mr. McNAIRY. That is right.

Mr. ROYALL. And states that the recaptures shall be on the basis of fair value, does it not?

Mr. McNAIRY. That is right.

Mr. ROYALL. And you fixed and agreed with the contracting officer upon a fair value which, in the case of new equipment, was equivalent to the retail list price.

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. Mr. McNairy, you were of the opinion that if you complied with this contract and the provisions relative to renting equipment and if compliance with those provisions resulted in a profit, you were entitled to that profit?

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. That is still your position?

Mr. McNAIRY. Yes, sir; the same way as if it had developed a loss, it would have been our loss.

Mr. ROYALL. That is what I was going to say. Could there have been a loss under the rental equipment?

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. If there had been a loss, would you have taken the position that you had to bear the loss and that it was not reimbursable?

Mr. McNAIRY. Yes.

Mr. ROYALL. That situation could not have arisen as to the items which are stated to be reimbursable, could it, sir?

Mr. McNAIRY. That is right, sir; and it goes further. We had to take the profit and loss in the operation of the contract.

Mr. ROYALL. In the Navy contract, it expressly states that equipment shall be put in at cost.

Mr. McNAIRY. That is right, sir.

Mr. ROYALL. Is there any such provision in this Army contract?

Mr. McNAIRY. Not that I know of, sir.

Mr. ROYALL. There is one other activity which you are permitted, in effect, to deal with yourself, and that is in the operation of a commissary. Is that correct, sir.

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. As to that, it specifically states that you shall operate it, as far as possible, without profit or loss, does it not?

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. Is there any such provision in the contract as to the rental of equipment?

Mr. McNAIRY. No, sir.

Mr. ROYALL. I believe you already said that you explained to the contracting quartermaster and he understood fully that the Equipment Co. was a subsidiary and was in effect the same company as T. A. Loving & Co.

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. Is it customary for contracting companies to own their equipments by subsidiaries?

Mr. McNAIRY. Yes; most of them do.

Mr. ROYALL. Now, Mr. McNairy, this recapture provision was in effect an option. Is that correct, sir?

Mr. McNAIRY. That is right; an option.

Mr. ROYALL. An option which the Government did not have to exercise unless it desired. That is right, isn't it?

Mr. McNAIRY. Yes, sir.

Mr. ROYALL. And the contract also contains a provision that it may be terminated at any time by the Government.

Mr. McNAIRY. That is right.

Mr. ROYALL. Were you of the opinion that the risk incident to granting that option and the lack of an obligation on the part of the Government to purchase would entitle you to a fair profit in the event the option were exercised?

Mr. McNAIRY. I think it would develop.

Mr. ROYALL. That is, provided you complied with the terms of the contract and—

Mr. McNAIRY (interposing). Provided they recaptured the equipment, it would develop into a profit.

Mr. ROYALL. As to the profit of the Equipment Co., of course, you have a trial balance sheet, which is always misleading. You know it couldn't be \$500,000.

Mr. McNAIRY. I am positive that it couldn't be.

The CHAIRMAN. We gave him permission to put that in the record.

Mr. McNAIRY. I will furnish that.

Mr. ROYALL. I want to thank the committee. I just wanted to make his contentions clear.

Mr. FULTON. On this general statement you made that your rates were about the same as the associated general contractors' schedule, some of these rates—in fact, many of them—are not only higher than those on the contractors' schedule, but they are considerably higher than even the equipment dealers' schedule.

Mr. McNAIRY. I don't know that I have ever had the equipment dealers' schedule, sir.

Mr. FULTON. You never looked at that in comparing your estimates?

Mr. McNAIRY. We got quotations from all of the specific bids from all of the equipment dealers, and in every case they were much higher than any that we used.

Mr. FULTON. I note, for example, you were charging \$450 for an International tractor.

Mr. McNAIRY. What size, sir?

Mr. FULTON. It says "D-1-8."

Mr. McNAIRY. Eighteen.

Mr. FULTON. We figure from the associated contractors' schedule that charge should have been \$345, and the equipment dealers' schedule is only \$425.

Mr. McNAIRY. Well, I think I made the statement at the early part that we added to the A. G. C. schedule I think it was approximately a sixth.

Mr. FULTON. You added quite a bit more than a sixth there, didn't you?

Mr. McNAIRY. I said in some instances it would run higher, and in some instances it would run lower than the schedule, but that I think in the average, if you take each piece of equipment, you will find the dollar value will average approximately the A. G. C. bulletin plus a sixth.

Mr. FULTON. There are a great many items here which—

Mr. McNAIRY (interposing). You will find quite a number of those items looking for that type of equipment, and I will find quite a number of the other type, looking for the other type.

Mr. FULTON. For example, here is a Lorraine shovel, 1½-yard capacity, at \$1,335, and the associated contractors' schedule figures out \$625, and there you were charging double.

Mr. McNAIRY. What?

Mr. FULTON. \$624.

Mr. McNAIRY. Is that right? That doesn't sound right for a yard-and-a-half shovel.

Mr. FULTON. Even the equipment dealers' schedule sets it up for \$1,000, and you charged \$335 more.

Mr. McNAIRY. Add your sixth. What is the A. G. C.? Have you a bulletin? That doesn't sound right to me, if I remember correctly—\$625 for a yard-and-a-half shovel, a Lorraine, Diesel.

Mr. FULTON. That is 5.2 percent set up there, and that evaluation equals \$624.

Mr. McNairy. Wait a minute. Are you calculating something? You are bringing another factor in on this. You are taking your evaluation of the equipment and figuring out the percentage of a second-hand piece of equipment. A yard-and-a-half shovel that can go out and move a certain prescribed number of yard of dirt in first-class shape is worth just as much as a brand-new piece of equipment, as far as rental is concerned.

Mr. FULTON. In other words, you were charging on the basis of the rental—

Mr. McNairy (interposing). Instead of the valuation.

Mr. FULTON. As though it were a new piece of equipment?

Mr. McNairy. Yes, sir.

Mr. FULTON. Just as much for an old one as for a new one.

Mr. McNairy. Because we had to put it in first-class shape and keep it in first-class shape except for ordinary wear and tear.

Mr. FULTON. How do you account for charging \$335 more than the equipment dealers charged for a new one? Certainly it wasn't any better than the new one.

Mr. McNairy. I don't follow you there. That is the reason I am checking you on this. I want to try to find that.

Mr. FULTON. Mr. Ansberry,¹ can you show him the green schedule of the equipment dealers?

Mr. McNairy. I don't know anything about the green schedule.

Mr. FULTON. Your rates are higher than the equipment dealers asked in their own schedule.

Mr. McNairy. They are less than anybody bid on the job. I can show you that. I think Colonel Simpson has the bids in his file.

Mr. FULTON. Mr. McNairy, bids don't mean very much when there is an insatiable demand on the supply. It doesn't mean a thing. You have got to get them because it is Army regulations.

Mr. McNairy. The A. G. C., crawler type. That is the electric, and here are the Diesel right there—\$1,040.

Mr. FULTON. You are well over a sixth above that.

Mr. McNairy. Let's see if that didn't have some attachments to it.

Mr. FULTON. I don't know what your attachments were.

Mr. McNairy. What were they?

Mr. T. P. ANSBERRY. That was a complete list.

Mr. McNairy. What I mean by that is that this is the price of the shovel. If that shovel came in with a dragline attachment or a clamshell attachment, you see, the additional attachment would run it up.

Mr. FULTON. You mean when you are using those percentages—

Mr. McNairy. \$1,100 rent is just for a yard-and-a-half shovel.

Mr. FULTON. What was on your shovel?

Mr. McNairy. What do you say? I don't know this particular piece, but if you brought in there a dragline attachment to substitute for it, you see, so that you could do dragline work or shovel work, then you have an additional valuation of the attachment. I don't remember that particular piece of equipment.

Mr. FULTON. In cases where you didn't have the attachments, could you deduct that from the rent?

Mr. McNairy. No; because this is basic, just for the shovel.

¹ Timothy P. Ansberry, committee investigator.

Mr. FULTON. I mean you are never less than that, and you added more where you thought you had more attachments than that contemplated.

Mr. McNAIRY. They set up a list of the attachments.

The CHAIRMAN. That is all, Mr. McNairy.

Mr. McNAIRY. Yes, sir.

The CHAIRMAN. Colonel Simpson!

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Colonel SIMPSON. I do.

TESTIMONY OF LAWRENCE L. SIMPSON, LIEUTENANT COLONEL, QUARTERMASTER CORPS

The CHAIRMAN. Be seated. State your name and rank, Colonel, for the record, please.

Colonel SIMPSON. Lawrence L. Simpson, Lieutenant Colonel, Q. M. C.

The CHAIRMAN. You are the constructing quartermaster?

Colonel SIMPSON. I am the constructing quartermaster at Fort Bragg, N. C., and have been since the inception of this national defense program there.

Mr. FULTON. Did you know that this Equipment Co. and the Graniss Co. were setting up these recapture values at considerably more than the cost of that equipment?

Colonel SIMPSON. I did not.

Mr. FULTON. Will you tell us what they told you, if anything, about that?

Colonel SIMPSON. They didn't tell me anything. They had a signed rental agreement, typed, and on there it gives the value. Our office checked the value for each piece with the best source we had of obtaining such values, such checks, who would be the distributor for that known article. In other words, if it was an International—I. H. C.—truck, 3-ton dump, model 1941, with a liquid hoist, and all that stuff, we checked with the distributor of that piece of equipment to see what the value was. If the value checked with the price submitted by the person furnishing the equipment we accepted that as the fair value, and that was the figure we used.

Mr. FULTON. In making that check, what did you ask them for?

Colonel SIMPSON. I asked them what it sold for, and to me—because I am just an Army officer—what somethings sells for is its value.

Mr. FULTON. Didn't you know that there is a rate for fleet purchases, that people buying fleets of trucks and busses or anything else always get a better rate?

Colonel SIMPSON. Well, sir, I have spent the last 24 years in the Army doing building, and most of my work is civil engineering and construction, and I know nothing about fleet purchases. I am not in the Transportation Division or in the Equipment Section. I know nothing about that.

Mr. FULTON. You didn't know, for example, that it was cheaper to buy 10 trucks than 1?

Colonel SIMPSON. I would assume that it might be, but I didn't know it. An assumption, of course, isn't a known fact.

Mr. FULTON. You knew that they were buying some of these items several dozen at a time?

Colonel SIMPSON. No, sir; I didn't know about that at the time. I don't know how many they bought at a time.

Mr. FULTON. Didn't you know that they were buying new?

Colonel SIMPSON. Yes.

Mr. FULTON. And didn't you know that they bought several dozen at a time?

Colonel SIMPSON. I don't know how many they would buy at a time. Here is the way it happened, if I may give a little background. The contract started out \$3,730,000, and it went to \$39,000,000—10 times that size. So, as these increments or additional phases of construction were authorized, additional equipment was necessary. I know I went out one day and said, "The sewer lines aren't going fast enough. We need draglines."

He said, "We can't get them."

Then I said, "I don't give a damn where you go. We are getting these troops in here without sewers. There are no showers or toilets or anything. Now get them."

So they went to New York State and all over where they got them. I don't know where. Likewise, when we had more lumber to handle and needed more trucks, I said, "Just get them. Whatever it takes to run the job, get."

Whether he bought those two at a time, six on Tuesday, or eight on Wednesday, I don't know. I was running a \$46,000,000 job. That is what the complete thing finally came to, with the additional work. Outside of establishing policies, procedure, and checking with my section heads in my office and checking with the engineer-architect and the representatives for the contractor, and so on, I was extremely busy doing some of the more important things. I had no time to go out and check how many trucks came on the job today or yesterday. My idea and my purpose was to see that there was enough, not how they arrived, but did they arrive?

Mr. FULTON. You mean by that, that you didn't consider it necessary to check on this feature?

Colonel SIMPSON. I mean by that this: I was sent down there—I am just an Army officer and make frank statements. I am not a lawyer—I was sent down there to do a job. We worked Sundays, and we worked nights until 10:30 and everything else, and we did the job. It was up to me to use enough common sense to devote my time to the things that were most important and the things of which, due to my 24 years in the Army, I had knowledge, and to delegate other things to people who didn't have my experience or my broad scope in the project.

The CHAIRMAN. Was the receiving of lumber important, Colonel?

Colonel SIMPSON. Was it? We received as high as 3,000,000 feet of lumber. That is how important it was. We made every effort—

The CHAIRMAN (interposing). It would be right important to find out whether the Government was being gypped on one of these rental contracts, too, wouldn't it?

Colonel SIMPSON. It would be extremely important, but on the rental agreement, it says, first, "He shall submit a fair value," and

we checked it with the known distributor for each different type of item, and that is the value we received.

Mr. FULTON. It would have been a lot less trouble simply to have asked him what he paid for it.

Colonel SIMPSON. The word "cost" doesn't enter into it. It says "value," and there is a distinction between cost and value to my idea.

Mr. FULTON. What is the distinction you made?

Colonel SIMPSON. Like this: I buy a house today for \$8,000, and the reason I buy it is that I think it is worth more than that. I may immediately value it for \$10,000, yet it cost only \$8,000.

Mr. FULTON. So you assumed the value was higher than the cost. Is that it?

Colonel SIMPSON. No; I made no assumption whatsoever about it, but I do make a distinction between them when the agreement says "value." I did not say "cost." If it said "cost," then I would have made him submit a bill of sale, and naturally it might be a good thing to check into those things. It didn't say "cost." It said "value." We weren't going back and asking him the value. He had already stated it once over his own signature. The thing to do would be to check some disinterested person who sells it and says what the value of this or that or whatever it is is. He said, "The market value is so and so."

Mr. FULTON. Value, of course, as you have indicated, is a matter of opinion. Cost is a fact. You could at least have asked him what his cost was, and it wouldn't have been half the trouble that you did go to to go around to all these little dealers at various places and ask them what their retail price was.

Colonel SIMPSON. No. Unfortunately, the agreement says "value."

The CHAIRMAN. Did you have any notion, Colonel, that this equipment company, which was made up of the same people as the construction company, was expected by the Government to make a profit on this job?

Colonel SIMPSON. I didn't know whether it was supposed to make a profit or not. I didn't know anything about that.

The CHAIRMAN. You knew that the job was on a cost-plus basis, that the contractor was being paid a fixed fee for his ability as a contractor and that he was supposed to furnish everything that went into the contract as a result of that fee? You knew that, didn't you?

Colonel SIMPSON. Yes, sir.

The CHAIRMAN. It seems to me that it would have occurred to you that a close check on whether he was complying with that contract would have necessitated your looking into the fact as to whether he was making profit on this or not.

Colonel SIMPSON. To go back, I did. I also checked the values to see whether the values mentioned in the rental agreements were the same values that the distributors said that the values were. For example, when we rented tractors, we called the Carolina Equipment Co., who were the distributors, both for North Carolina and all around Raleigh, for caterpillar tractors and so on. We asked them, "What is an RD-8 worth, or what is that worth? What is its value?"

"It is so much." That was the value.

Mr. FULTON. Did you get any list from the Washington headquarters listing the prices of materials and equipment of this kind?

Colonel SIMPSON. No; we didn't get any list.

Mr. FULTON. I just meant did they send you any?

Colonel SIMPSON. No; they didn't send me any. The way the contract started—the way the job started, if you start from the beginning, as I think it is much better to do—Washington phoned us and said that they had awarded the contract to T. A. Loving and the general contract to J. N. Pease, architect-engineer. The next day the people arrived in my office—it was new to me; I knew nothing about fixed-fee cost-plus work—and said they wanted to get started. I gave them an empty building, and then they wanted some equipment, and so on. I said, "I don't know anything about that. What does the contract say? I don't know under what terms I can proceed, or what authority I have."

So we phoned every day for the contract, and it was always about to be mailed or somebody was about to sign it or something. We finally got the contract, but in the meantime I had been warned by Mr. McNairy to the effect that—I said, "Maybe I can just get a standard form of contract and work on that."

He said, "No; that wouldn't do any good, because there have been some deletions."

Finally I got the contract. We wanted to rent some equipment, and in there it was struck out about going by some schedule. I said, "Terms to be approved by contracting officer." Then we looked over under rentals, and it said, "The rentals shall be as paid in that particular territory." All that I knew to do was to go ahead with the contract and interpret the contract and act under the contract in accordance with the terms of the contract. I couldn't do anything else, and that is all I did.

The CHAIRMAN. The contract evidently was loosely drawn to begin with.

Thank you, Colonel.

The committee will adjourn until 10:30 tomorrow morning.

(Whereupon the committee adjourned at 12:30 p. m., until 10:30 a. m., Thursday, July 31, 1941.)

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

THURSDAY, JULY 31, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE
THE NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:35 a. m., pursuant to adjournment on Wednesday, July 30, 1941, in room 318, Senate Office Building, Senator Harry S. Truman, presiding.

Present: Senator's Harry S. Truman, chairman, and Ralph O. Brewster.

Also present: Hugh A. Fulton, chief counsel.

The CHAIRMAN. The committee will come to order. Captain Richardson. Just take your usual seat, Captain.

Proceed, Mr. Fulton.

TESTIMONY OF CAPT. ROBERT L. RICHARDSON, QUARTERMASTER CORPS, CHIEF OF EQUIPMENT UNIT, PURCHASE AND EXPEDITING SECTION, WASHINGTON, D. C.—Recalled

VALUE OF RECAPTURED EQUIPMENT

Mr. FULTON. Captain, I think that you said, with respect to ordnance plants, that you were purchasing quite a bit of equipment now.

Captain RICHARDSON. That is correct; yes.

Mr. FULTON. In that connection, are you purchasing trucks of the same type and kind that we have discussed from time to time?

Captain RICHARDSON. That is correct; yes.

Mr. FULTON. What would be the amount off the retail price that you are able to get those trucks at?

Captain RICHARDSON. Deducting tax, approximately 19 percent, and there is a 3-percent tax that we can save buying them direct through the Government.

Mr. FULTON. You mean that in the case of private industry they would be paying a tax?

Captain RICHARDSON. That is correct.

Mr. FULTON. Which, of course, the Government wouldn't be paying.

Captain RICHARDSON. That is right.

Mr. FULTON. Well, then, those purchases at least we have saved this 19 percent—22 percent over what we could buy them for if we took the retail price.

Captain RICHARDSON. That is right.

Mr. FULTON. With respect to these various schedules that were prepared—

Captain RICHARDSON (interposing). May I say something? I gave Mr. Ansberry the new amount of recapture on Bragg as you requested. He has it there.

Mr. FULTON. And that is a very substantial proportion of the total; is it not?

Captain RICHARDSON. As it stands today, if you would like to have it as a matter of record against rental paid, that is the total value, I will put it that way. We have paid \$1,522,280.97 rental, and as of July 30, according to my records last night, we had recaptured from Fort Bragg \$1,130,658.93. We are continuing; each day there will come in, probably four or five recaptures a day from that particular camp.

Mr. FULTON. You are also considering transfers?

Captain RICHARDSON. We will transfer from that project. For instance, we have three projects in Alabama that we need equipment for now. We will transfer the rest of that equipment from Bragg to these particular projects. That is recaptured prior to its transfer.

Mr. FULTON. So that Mr. McNairy was right in saying that as to most of the equipment there, it really in effect is a sale rather than a rental.

Captain RICHARDSON. That particular camp, taking the complete total valuation or the complete rental paid, should equal about 96 or 97 percent. I will have to wait until we complete the whole job to give you that, but it will be in that percentage.

Mr. FULTON. So if the Government had a loss there, the loss has been by reason of purchasing the equipment at this recapture value instead of the retail, rather than by purchasing it directly.

Captain RICHARDSON. That is right, and as I said yesterday, it came to my knowledge of the Equipment Co. when I was checking on my files on June 29. In other words, it didn't show T. A. Loving Co., it showed the Equipment Co., which naturally we assumed was a third party; and I have checked thoroughly with members of my office that checked these monthly reports, and they were sure that it was a third party.

Mr. FULTON. And you treated it as such in your consideration?

Captain RICHARDSON. That is correct; after the report came from the zone that it was owned by the officers of T. A. Loving Co., we started then an immediate investigation on it to see what could be found. I think you have the final copy of that, if I am not mistaken.

Mr. FULTON. Well, Fort Bragg, of course, as I understand it, is the biggest single project in dollars that the camp construction program had.

Captain RICHARDSON. I understand so; yes.

Mr. FULTON. I note, however, that in a number of other camps they had a considerably larger amount of equipment even though they were relatively smaller camps, and what would be the explanation of that?

Captain RICHARDSON. Can you give me a specific camp that we can talk about? I mean, that is the best way I can tell you that.

Mr. FULTON. Of course, the camp that had the highest amount of equipment was—

Captain RICHARDSON. Fort Leonard Wood.

Mr. FULTON. In Missouri, which had almost \$8,000,000 worth of equipment.

Captain RICHARDSON. That is correct.

Mr. FULTON. Now that camp was almost the same size as Bragg, but I can't understand why you would have four times as much equipment there.

Captain RICHARDSON. Well, at Fort Leonard Wood the large amount of equipment we are speaking of was only on the job approximately 120 days. Most of it was used in putting in the 15—I think 15.5, if I am not mistaken—miles of railroad which was put in in 91 days.

Mr. FULTON. On that particular job, the percentage of recapture would be very small relative to the others.

Captain RICHARDSON. Well, at Fort Leonard Wood, Mr. Fulton, we have transferred that equipment from there, recapturing it prior to its transfer, whenever we could get permission to do it, and of course at the termination of the contract—I am speaking then prior to the termination, and now at the termination of the contract—the last 19 carloads from Fort Leonard Wood were recaptured and shipped to Plum Brook, Ark.

Mr. FULTON. How much of that do you expect to recapture, in a rough approximation percentage-wise?

Captain RICHARDSON. At Fort Leonard Wood?

Mr. FULTON. Of that \$8,000,000 of equipment.

Captain RICHARDSON. I would have to give you an estimate until we can get our final reports in on it, but I would estimate we would recapture approximately 5 million, and transfer approximately \$1,800,000.

Mr. FULTON. As of June 1, there wasn't anywhere near that amount recaptured. Has most of this taken place since?

Captain RICHARDSON. The job wasn't terminated, I think, finally until July 15.

Mr. FULTON. Most of that equipment was not being used during the last 2 months.

Captain RICHARDSON. No; but it wouldn't show as a recapture there because we had transferred it to other projects, retaining the Government's equity.

Mr. FULTON. Where does the recapture of that turn up—in the other projects?

Captain RICHARDSON. That is correct.

Mr. FULTON. Such as ordnance plants?

Captain RICHARDSON. I will give you the name, St. Louis Ordnance, Weldon Springs Ordnance, Plum Brook, Ark., and Anderson Ordnance, at Anderson, Ala.

Mr. FULTON. I understand there were some 80 big draglines that were sent to that camp at the Government's expense, freight both ways, that weren't even used.

Captain RICHARDSON. That were not used? How many?

Mr. FULTON. I understand there were 80 draglines. First, is that right?

Captain RICHARDSON. I shipped to that project, myself—I can tell you the things that I shipped there and give you an accurate answer. The rest would have to be checked exactly from the report, of course.

But I shipped 19 shovels in there myself for this railroad cut. There were approximately 1,600,000 yards of rock to move and the shovels were the only way they could move it. Now the draglines were used on the railroad in the lower sections to make the fills and the grade, but I don't know of 80 of them that were not used; no, sir.

Mr. FULTON. Do you know of a large number that were shipped in there and not even put on the job?

Captain RICHARDSON. No; I can't answer that. I couldn't answer it because I don't know. I mean, if they brought them in I assumed that they were being used, but I wouldn't know exactly. I wasn't on the job, I was in Washington. I could find that out for you if you were interested in it.

The CHAIRMAN. One of the reasons for the immediate hurry in this recapture business was the fact that this committee started to make an investigation of it, isn't it?

Captain RICHARDSON. No, sir.

The CHAIRMAN. No effort had been made to recapture these trucks until about the 1st of June that I know of. At that time we started an investigation and I think that is what hurried them up.

Captain RICHARDSON. Senator, I explained to you the other day that according to the contract, that is, a basic contract, we could not recapture until the rental had equaled 100 percent of the purchase price, or at the termination of the principal contract.

The CHAIRMAN. I think this committee kind of hurried you up a little bit.

Captain RICHARDSON. Sir, if you will check your terminations of the contracts, you will find, I think, that all of them were terminated after June 5.

Mr. FULTON. In some of these camps—take Fort Bliss, for example—there seems to be a very large amount of repairs which the Government paid for on equipment belonging to the contractor, as compared especially with a lesser amount of repairs on similar equipment belonging to third parties. Have you checked that factor?

Captain RICHARDSON. Well, according to the basic contract, all repairs are made to the contractor's equipment that were not due to faulty parts or the negligence of the contractor's operator. On third party equipment, under the original rental agreement, namely, stencil 40-2111, the Government only made minor or field repairs, or minor or field-repair adjustments. No major overhauls.

Mr. FULTON. Well, then, as I understand it, we agreed to do more in the line of repairing contractor's equipment than we did in the line of repairing third-party equipment.

Captain RICHARDSON. That is correct, due to the low rate of the quartermaster schedule of rental in the contract.

Mr. FULTON. And that makes it all the more important that the rate actually be different for the two?

Captain RICHARDSON. That is correct. That is why a schedule was made prior to my coming in the Army, and we tried to carry that schedule through.

Mr. FULTON. And yet at Fort Bragg, comparing the rates of the third party, the Graniss Co., with the rates of the contractor party,

this Equipment Co., on item after item they are the same, but you wouldn't have thought that unusual because you thought they were both third parties?

Captain RICHARDSON. There was no way in the world of my knowing here. I mean, it is up to the constructing quartermaster to approve the rates of the project at the particular time that job is started, and as I mentioned the other day, we have the safety factor now of the zone constructing quartermaster. Naturally, having 9 zones, he can show more personal attention to a job than I could with 372 projects.

Mr. FULTON. Some of these repairs to the contractor-owned equipment run pretty high proportionate to the value of the equipment, often 50 or 60 percent.

Captain RICHARDSON. Mr. Fulton, the repairs were not approved in the Washington office; they were approved at the project, and every repair was supposed to be taken under consideration as to its justification.

Mr. FULTON. And I believe I understood you to say that if an old article of equipment was thoroughly conditioned, it could do the same amount of work as a new one.

Captain RICHARDSON. For a short time; yes.

Mr. FULTON. Now, one question we have is this: Did some of these contractors bring in old equipment in these cases where we know thousands of dollars of repairs have been spent on them, and get them reconditioned at the Government's expense?

Captain RICHARDSON. They may have in some instances; I couldn't answer that. I mean, I couldn't tell you the exact facts on it.

Mr. FULTON. Well, at Fort Bliss the contractor was maintaining the repair shop and also was renting equipment to the Government which was being repaired in this shop. Could you tell me something of the safeguards, if any, that were set up to make sure he wasn't reconditioning his equipment?

Captain RICHARDSON. Each repair made to the contractor's or third-party equipment had to be approved by the constructing quartermaster and also the Government auditor on the project, whether it be for a small \$5 repair or whether it was at the completion of the contract when there were in some instances three or four hundred dollar repairs to a shovel that was owned by a contractor. That was the safety factor that we had in the field.

It would have slightly delayed things if they had had to send every repair to Washington. Being in Washington and not seeing the piece of equipment, and not seeing the justification or nonjustification for it, I naturally couldn't give an intelligent answer from Washington on that.

Mr. FULTON. Has there been any general check-up when you saw \$3,000 paid for repairs for a \$5,000 article?

Captain RICHARDSON. In every instance where repairs have come to the knowledge of the zone, the zone man immediately investigates that particular repair to see who approved it and why he approved it. That is what is being carried on at this particular time.

Mr. FULTON. I note, for example, sometimes the repairs cost twice as much as the article did new.

Captain RICHARDSON. Mr. Amberg showed me an item the other day; I think we were checking some paving breakers as I remember it.

Mr. FULTON. Air hammers; yes.

Captain RICHARDSON. That is a report from the project, of course, I haven't seen it, but frankly, the report really looked absurd as to the value and the rental paid, I grant you that, and the actual value of that piece of equipment and the repairs made, but I couldn't know unless I took that particular case and investigated it for you.

Mr. FULTON. Of course, an air hammer is a thing that wears out fast.

Captain RICHARDSON. But the case doesn't usually wear out. The amount of repairs shown there is extremely in excess.

The CHAIRMAN. Are you taking steps to see that they don't abuse the privilege of this repair?

Captain RICHARDSON. Sir, we have the extra safety factor now, as I mentioned, in the zone, with the zone mechanical officer checking all repairs prior to their being made on the project.

The CHAIRMAN. You can see what an abuse of that there could be.

Captain RICHARDSON. Yes, sir; the thing could be very easily abused.

Mr. FULTON. I note also that at that particular camp, Fort Bliss, the contractor, Morgan & Zachary, were sending in quite a bit of equipment that was quite old, at very high rates. I note here a pick-up truck, 1936, valued at \$325, renting for \$55 a month. Isn't that pretty high for a 5-year-old truck?

Captain RICHARDSON. Well, Mr. Fulton, I will say this. Is that contractor-owned, did you say, or third party?

Mr. FULTON. That particular one I think was third party.

Captain RICHARDSON. If that is third party I don't think—it depends on the condition of the truck when it comes on. Frankly, with the rough terrains that some of the camps had, a 1935 truck would possibly take as much beating as a 1941 truck, going over a rough terrain and bumping into stumps, doing night work and things of that type.

Mr. FULTON. Do you think a 1932 Oldsmobile sedan is worth as much as a 1941 Ford sedan?

Captain RICHARDSON. I absolutely do not. I would never buy one that way.

Mr. FULTON. They have one in here that they valued at \$253 and they got \$47 a month rent for it.

Captain RICHARDSON. Which project were you speaking of?

Mr. FULTON. Fort Bliss.

Captain RICHARDSON. Fort Bliss?

Mr. FULTON. Why should they rent or be permitted to rent 9-year-old cars for the same price as a new one?

Captain RICHARDSON. I still say to you it is up to the constructing quartermaster on the project at that particular time to approve every rental that came onto the project.

Mr. FULTON. Well, there are a lot of these old cars here, like 1935 Fords and 1936 Hupmobiles, and so on; they all rented at the same rate as the new ones.

Captain RICHARDSON. I see.

Mr. FULTON. And a 1917 truck in here being rented at a high price Captain Creager said it was because it was an exceptionally fine truck, but \$150 looks a bit high for it, doesn't it?

Captain RICHARDSON. One hundred fifty dollars valuation?

Mr. FULTON. It had a valuation of \$500.

Captain RICHARDSON. Is that the old F. W. D. truck that there has been a lot of discussion about?

Mr. FULTON. I think it was an F. W. D. It was 1917, I know.

Captain RICHARDSON. I don't know how anyone could place a value on a 1917 truck. I think it would be a very hard job to do.

Mr. FULTON. Is it justified to rent that kind of article for \$150 a month?

Captain RICHARDSON. It may be, Mr. Fulton; you would have to take the job into consideration. It is a four-wheel drive truck. If it had pneumatic tires on it, it would be very good to go into bad places. If that was the advantage, I would say, yes, it was practical to rent it, but if it was rented just to haul lumber, we know it wasn't worth that. In other words, I assume we can't get parts for trucks that old. I have never been able to get them myself. I don't know whether they had them there at that particular project, but if it was rented for one specific thing, I would say it was an advantage; if it wasn't, I would say no.

Mr. FULTON. Here is a 1932 two-door Ford sedan renting for \$47 a month. I don't see how you can justify that rental.

Captain RICHARDSON. Well, that may have carried a man around on the job. You would have had to rent a 1941 for him and probably pay \$90. It may be justified; I can't give you a direct answer.

Mr. FULTON. I don't know why you couldn't buy those for about \$47 instead of renting.

Captain RICHARDSON. In other words, there happens to be a ruling of my superior, and I am in the Army. It is a ruling that we can't buy anything under 1938.

The CHAIRMAN. But you can rent them going back to 1917.

Captain RICHARDSON. Sir?

The CHAIRMAN. The same rule ought to apply.

Captain RICHARDSON. I think you will find now, sir, that that is what we are renting. You may find isolated instances where one or two trucks are rented of that particular type.

Mr. FULTON. Well, I noted that we recaptured that 1917 truck.

Captain RICHARDSON. What was the date of recapture on that?

Mr. FULTON. They don't give me that, but the answer is "yes." That was the contractor himself that was renting that, J. E. Morgan & Sons.

Captain RICHARDSON. I think I can give you the date of the letter of instruction that went out on old trucks; let's see if that is prior to that. Construction Division letter No. 56, January 31, 1941.

Mr. FULTON. I note on these tractors that there are several instances where the repairs plus the rentals are quite a bit more than the cost new of the tractor, and yet they are listed as not recaptured.

Captain RICHARDSON. Listed as not recaptured? What's the date of that report?

Mr. FULTON. They were giving that as of some time around the middle of June.

Captain RICHARDSON. I think that is a June 1 report, isn't it?

Mr. FULTON. No; this is the report to us that they prepared.

Captain RICHARDSON. Well, that is why I asked to supplement that report with one of either July 1 or July 30. In other words, it

would show a better purchase on that at the camps and show a true picture of the recapture.

Mr. FULTON. Is there any way that we can really check to find out whether a tractor should have \$2,300 of repairs on a \$3,000 tractor?

Captain RICHARDSON. That is correct; we can.

Mr. FULTON. How can we do that?

Captain RICHARDSON. I can have them send a 103 report, showing every item of repair parts, the number of items, and each item of repairs that was put on that particular truck.

Mr. FULTON. Will you check on these half dozen or so very expensive repair items at Fort Bliss?

Captain RICHARDSON. Could you give me the equipment numbers?

Mr. FULTON. I mean those where you find that they have paid 50 percent or more of the cost new.

Captain RICHARDSON. Well, I don't have that particular report in my files. I mean I have them just in monthly rental reports.

Mr. FULTON. I will loan you this.

Captain RICHARDSON. Fine.

The CHAIRMAN. Captain, I think it might be a good thing to take a look at the whole picture and see just in how many instances we have practically bought the tractor or the truck in repairs, and then let the fellow keep it, without recapturing it, see how many instances like that there are and then find out if this tremendously large repair bill is actually on the square. I think you can find something in that.

Captain RICHARDSON. Senator, I have had every large repair bill that has come to my knowledge on a particular project completely investigated, and in many instances it was not a reimbursable item.

Mr. FULTON. Some of these repairs look really very much—the McDougal Construction Co. was a prime contractor, was it not, on one of these?

Captain RICHARDSON. On which particular project was that?

Mr. FULTON. I don't know which project.

Captain RICHARDSON. Boston General Hospital.

Mr. FULTON. I note that the total rental paid on their equipment was \$41,000 and that the repairs was \$30,767.

Captain RICHARDSON. I think, Mr. Fulton, I am not repudiating your statement, but I think Mr. MacDougald would like to give you the same for it today. I just disapproved over \$11,000 in repairs on that particular project. In other words, that came from their purchase orders where they have requested—

Mr. FULTON (interposing). Why would you disapprove the repairs? Did you find they were asking for improper amounts?

Captain RICHARDSON. They were not asking for improper amounts. They had their equipment leave the project and then they requested repairs which they had put through purchase orders requesting approval of the constructing quartermaster. He, in turn, called me direct to Washington, and I zoned it over and disapproved it. I said the equipment had left the project, he had received it, and I saw no reason for the Government to spend \$11,000 on his equipment. They may have been justified, but I had to stand on the contract itself. That is all.

Mr. FULTON. Even if you deduct that \$11,000, there are still \$19,000 of repairs on \$41,000 of equipment. That is still 50 percent.

Captain RICHARDSON. We would have to figure the repairs that were made against the type of soil he was moving, on the length of time, and the amount of soil moved to see if it was really practical and economical.

Mr. FULTON. Well, the other biggest renter of equipment on that project was the third-party lessor, who rented \$27,000 of equipment, for repairs of only \$3,500, or a little over a ninth. This, compared to a half, is quite disproportionate, even after you throw out \$11,000.

Captain RICHARDSON. I think you might find on that particular problem, Mr. Fulton—I think I am making a correct statement—that the contractor rented approximately 75 percent new equipment that was available at that particular time.

Mr. FULTON. Whereas he furnished primarily old equipment.

Captain RICHARDSON. I have checked over the items of equipment he asked for repairs on, and the oldest item was a 5-year-old shovel. The rest of them usually ran, as an average, around 2 years old, and they should be in pretty good condition unless they were very badly misused.

Mr. FULTON. Have you found anything to which you have taken exception in the question of equipment rental at Camp Blanding?

Captain RICHARDSON. Camp Blanding? Yes, sir. We had the equipment schedule. I think you will find the equipment rental agreements were completely revised on that camp.

Mr. FULTON. Well, why were they revised?

Captain RICHARDSON. The constructing quartermaster had approved them for the Government, but I still thought the rentals were too high and stated that they should either enter into a new rental agreement or a supplementary agreement on that.

Mr. FULTON. Would you consider that a good or a bad or an intermediate example of equipment renting?

Captain RICHARDSON. As a general picture, I would say that the rentals at Blanding were a little above the normal of the other camps.

Mr. FULTON. Did they have too much machinery there, or do you think it was about what they required?

Captain RICHARDSON. Well, in many instances I insisted that they release for other projects a part of the number of trucks that they had that I didn't feel they needed. Of course, that particular camp was scattered over quite a large area and required quite a bit of equipment, whereas, if it were centralized, you could keep your equipment down. I think they were working—this is from memory—over 46,000 acres, and naturally that—

Mr. FULTON (interposing). They have one of the highest ratios of equipment to the value of the project.

Captain RICHARDSON. Well, that, I believe, would be due to the large terrain that they were working; that is, the large area that they had to work, and they couldn't centralize their equipment to perform. For instance, if you are digging 800,000 yards within an area of half a mile, you could naturally use less equipment than if it is scattered all over the country.

The CHAIRMAN. And they had to grade the whole camp before they could even work on it.

Captain RICHARDSON. Sir, I wouldn't know. I wasn't down there until December 26. I think that was the first time.

The CHAIRMAN. I went down and gave them a good scrutiny.

Captain RICHARDSON. I couldn't answer that question. I was just down there and checked that particular item of equipment.

Mr. FULTON. One thing I noted about Blanding particularly, is the fact that they seemed to have a great many different valuations for recapture purposes on the same identical type of equipment, such as a Ford pick-up truck, for example. Now, I note there that in one case the new Ford pick-up was valued for recapture at \$706, in another case at \$754, and in another case at \$885.

Captain RICHARDSON. Who was the lessor, Mr. Fulton?

Mr. FULTON. Various different lessors, but they are all new pieces of equipment.

Captain RICHARDSON. I mean on Blanding there was a lessor there at that particular camp on automotive equipment. We had a very bad sand condition at that particular camp.

Mr. FULTON. Whether you have a bad sand condition——

Captain RICHARDSON (interposing). I mean we required them to make all repairs—everything.

Mr. FULTON. But on the question of the value of a new truck, it doesn't matter whether there is sand there or not, it is still only a new truck, and it has the same value as any other new truck on the same project.

Captain RICHARDSON. Mr. Fulton, if you had to make all the repairs, which were at that time an unknown factor, on the equipment that you placed on the project, and you were not receiving additional recapture price for that when you recaptured it, don't you think that would show up in the valuation of your truck?

Mr. FULTON. You mean, then, Captain Richardson, that you didn't fix these values for recapture or didn't attempt to fix them at the value of the article at all, but took into consideration every other factor that you thought might have a bearing on whether it was a profitable contract?

Captain RICHARDSON. Every item that came in on the report that was overvalued, according to my office, was sent back. They were told either to get rid of the equipment or to enter into a supplementary agreement with the lessor to reduce the valuation.

Mr. FULTON. Is a half-ton Ford pick-up worth \$885?

Captain RICHARDSON. I wouldn't pay \$885 for it.

Mr. FULTON. Even \$706 is pretty high if you are going to buy hundreds of them, isn't it?

Captain RICHARDSON. I figured in this particular case—well, I will answer your direct question. If I were to buy 100, or 200, or 300 of them; yes.

Mr. FULTON. Well, you did have 100 or 200 or 300, didn't you?

Captain RICHARDSON. But they were not on the project at one time. They didn't start with 100 pick-up trucks. They started off with 5.

Mr. FULTON. Who owns them today?

Captain RICHARDSON. We own them.

Mr. FULTON. But we bought them at \$885?

Captain RICHARDSON. I wouldn't say only "we." I will say the W. P. A., the United States Government—that is, speaking of the United States Army—and the Public Health Service.

Mr. FULTON. And if we are buying those direct, what would we pay for them in those lots?

Captain RICHARDSON. I would have to check the exact price from the reports, but I can let you know.

Mr. FULTON. Wouldn't it be under \$700?

Captain RICHARDSON. If I am not mistaken, the pick-up truck bought by the Army—bought by Motor Transport of the Army—cost approximately \$628. That is less tax, and so forth.

Mr. FULTON. Isn't that a pretty bad record when you are buying them for \$885?

Captain RICHARDSON. We were not buying them. We were renting them with a recapture sales contract.

Mr. FULTON. Which is this? A sale?

Captain RICHARDSON. It is now. It wasn't to start off with. I don't know that anyone could consider it a sale to start with.

Mr. FULTON. You take \$628 and \$885, that is considerably in excess of 35 percent more than the purchase price.

Captain RICHARDSON. That is correct.

Mr. FULTON. And there are literally hundreds of these Ford pickups alone in this camp, are there not?

Captain RICHARDSON. I think there are 254, if I am not mistaken, from checking over my old records, that is, Fords and Chevrolets, and so forth—different types.

Mr. FULTON. And this same thing applies to the new 1½-ton Ford stake trucks, does it not?

Captain RICHARDSON. What is the price quoted there?

Mr. FULTON. There are three or four prices quoted: \$1,475 is one; \$1,300 is another; and \$1,330.

Captain RICHARDSON. During the recapture of a bit of equipment at Blanding, we had received complaints. The owners said we were buying them for less than they paid for them. In that instance they were individual owners and asked if they couldn't get them back and gave us statements showing, they paid far in excess of what we paid for them, in some instances \$200. I still grant that with mass purchasing, you could have saved money. That has been granted.

The CHAIRMAN. You don't contend, as the Colonel did yesterday, that you can't buy for less money when you buy a lot of them?

Captain RICHARDSON. No, sir; I think that you could, as we are doing now. I have bought ordnance plant equipment, as I told you the other day, and we saved approximately eight and a half million dollars. That is a round figure and, of course, is a guess. Yesterday I bought a group of tractors for a new ordnance plant just starting and save 12 percent on them.

The CHAIRMAN. Don't you think that you would have saved a lot of trouble if you had set up a recapture value on these various pieces of equipment which you know you are going to recapture, so that everybody would be treated exactly alike. You wouldn't have one car for \$700 and another car of the same make and model for \$885.

Captain RICHARDSON. That is granted, Senator.

The CHAIRMAN. Are you doing that?

Captain RICHARDSON. Yes, sir. In other words, the way the program is now, sir, we have been making a preliminary survey to show approximately, very close to the amount of dirt to be removed and the type of terrain that they will go into. Therefore, with that list, I can anticipate what that camp will need. We are anticipating and instead of renting one or two items from this individual owner or that

individual owner or this manufacturer, if he will rent (usually it is pretty hard to make a manufacturer rent direct to you), we are taking a complete lot. It probably won't be 100 percent of the equipment on the job, but it will represent a larger or major portion of that job. We are then negotiating in my office in Washington on the purchase and the rental to see what the saving will be, the recapture price being taken into consideration against the purchase price; also the 1 percent would have to be paid.

The CHAIRMAN. It ought to be handled in a way so it is fair to everybody, particularly so it is fair to the Government.

Captain RICHARDSON. That is what we are trying to make it—very fair for the Government.

Mr. FULTON. This Roberts-Hall Co. that rented about 800 trucks in August—

Captain RICHARDSON (interposing). Who is that?

Mr. FULTON. Roberts-Hall. They are at Camp Blanding.

Captain RICHARDSON. Roberts-Hall Co.?

Mr. FULTON. Yes. Do you know the nature of their business? Were they dealers?

Captain RICHARDSON. I understand that Roberts-Hall, if I am not mistaken (that name isn't very familiar to me), is the distributor in Florida for the Ford Motor Co. It may be General Motors or Ford—there are so many of them that come in.

Mr. FULTON. Were they ordinary equipment renters? I take it you think they were, and I believe you are right. They were distributors of the car.

Captain RICHARDSON. They were distributors for the whole State of Florida, I think. I think that is their position.

Mr. FULTON. That being so, I should think it would be quite obvious to the Constructing Quartermaster that they weren't paying retail prices for those cars.

Captain RICHARDSON. That is correct. I think you could find in the records of the camp where I contested the particular price that they had set up.

Mr. FULTON. I think you required them to make an adjustment on many of their items.

Captain RICHARDSON. That is correct.

Mr. FULTON. About half of the 800.

Captain RICHARDSON. Just exactly half, if I am not mistaken.

Mr. FULTON. And in that adjustment, you gave them part, but not all, of that difference. I mean you took part, and they took part, the difference between the two.

Captain RICHARDSON. In other words, here is the situation. As I explained, according to our contract, the constructing quartermaster had accepted that valuation for the Government. I couldn't go in and say "You have to do this." I could say, "You have to do it or get your trucks off."

Mr. FULTON. You did the best you could.

Captain RICHARDSON. We had approximately 40 percent equity, and I figured that in this particular instance by giving them approximately 5 and taking 12, where we would have lost the other 40 percent equity, I figured that was the best possible position I could put the Government in there by saving that amount,

If we had turned them loose, if I had said, "Get them off the job," we would have needed them again the next day from somebody else. We had 40 percent equity in the ones that were there.

Mr. FULTON. I am not criticizing your action.

Captain RICHARDSON. I am just telling you the position I was placed in due to the way the basic contract was written.

Mr. FULTON. But the question I had in mind is what kind of report was made with respect to the constructing quartermaster who put you in that position?

Captain RICHARDSON. The constructing quartermaster was replaced at that particular station exactly 5 days later, sir.

Mr. FULTON. I understand he has since been promoted in the Army.

Captain RICHARDSON. If he has, I don't think he is in the Construction Division. I think you will find him in the Quartermaster Depot. I am not making that as a definite statement, but I am sure that he is not in the Construction Division any more.

Mr. FULTON. Now, on these projects where part of this equipment is not going to be recaptured, as I understand you, even yet your estimates are that only about 50 percent ultimately will be recaptured of the equipment you have rented.

Captain RICHARDSON. It will run above 50 percent, Mr. Fulton.

Mr. FULTON. What would you estimate?

Captain RICHARDSON. Frankly your guess would be as good as mine until the completion of the job, until we can find out exactly what we do need.

Mr. FULTON. If we assume it is more than 50 percent, say it is 60 percent, it would be a very high fraction.

Captain RICHARDSON. I think the supplementary report I will give you as of July 30 will show approximately 50 percent now, and we have projects that won't be completed for 12 or 13 months.

Mr. FULTON. But assume, then, that it won't be even half, it still will be a very sizeable percentage that will never be recaptured—30 or 40 percent?

Captain RICHARDSON. I would imagine, as a guess, I say, we may get up to 75 or 80 percent.

Mr. FULTON. Even assuming 80, you still have 20 percent.

Captain RICHARDSON. I am speaking for the Army now. As I stated before, we have been giving to the United States engineers (I am just speaking of the Quartermaster Corps—not of the Army) the privilege of recapturing from us; we are giving W. P. A. up to a certain amount which has been specified by the Secretary of War's office, Public Works, and the United States Navy. Any time we can help them we are very glad to, if we have a surplus item of equipment. And when we take all those things into consideration—it all has to be a guess now—it will run a very high figure.

Mr. FULTON. Then that means that it would have been highly desirable if we had had some kind of coordination between the Navy and the Army in the earlier part, to determine just what we really would need.

Captain RICHARDSON. In other words, we have had coordination among the Army agencies, and at the request of W. P. A., who had no priority to obtain equipment—and you can't get shipment of equipment except on a priority now—we allowed them to take some surplus

equipment to get projects started, that is, in the vicinity of Army camps only, possibly secondary roads in an Army camp, or a military school area just inside of the camp, or a maneuvering area, or something of that type.

Mr. FULTON. It is because of that high percentage that you ultimately expect to recapture that, I understood, you revised your estimate of what the Government could have saved by purchasing directly to somewhere around 12 or 13 million.

Captain RICHARDSON. That will have to be a guess, just like the eight and a half. We will have to wait for the final picture. Then I can make a statement that will be accurate and see what we could have saved, taking everything into consideration.

RATE SCHEDULES FOR EQUIPMENT RENTAL

Mr. FULTON. Now, with respect to that Associated General Contractors' schedule, it did include, did it not, an item for repairs?

Captain RICHARDSON. That is correct, sir.

Mr. FULTON. And it also included no salvage value?

Captain RICHARDSON. That is correct.

Mr. FULTON. And the depreciation was pretty high, too, wasn't it, on a lot of those items, so that it became merely a burden to the contractors to keep it more than 3 years, because they would have to pay taxes on a lesser depreciation they had used up in earlier years.

Captain RICHARDSON. Frankly, Mr. Fulton, I have never considered that a schedule of rental rates.

Mr. FULTON. It is supposed to be ownership expense.

Captain RICHARDSON. It is supposed to be a schedule to amortize the capital investment of the contractor, but they take so many exceptions, as you probably read in the foreword of it, each particular job would have to be taken into consideration as to what was going to happen, as to whether you could use that as a schedule to amortize your equipment. But it leaves too many unconditional things in the foreword that you can't bring down the true facts.

Mr. FULTON. As I understood it, the Army prepared a somewhat lower schedule by reason of the exclusion of the repairs, to prevent those being included twice.

Captain RICHARDSON. That is correct; yes.

Mr. FULTON. And you have since prepared further schedules of your own?

Captain RICHARDSON. That is correct; the latest schedule is of May 19, 1941.

Mr. FULTON. How does that compare generally with the contractors' schedule?

Captain RICHARDSON. That is approximately 30 percent under the rates of the contractors, that is, on items. Take it as a whole?

Mr. FULTON. As a whole; yes.

Captain RICHARDSON. I would say around 22 percent under the A. G. C. ownership schedule.

Mr. FULTON. And that is your best estimate of what the actual expense is. Is that correct?

Captain RICHARDSON. That is correct, and that is with the Army's making the repairs that they are today.

Mr. FULTON. Yes; with the Army's doing what it has been doing.

Captain RICHARDSON. That is right, and we still don't want those repairs to be in excess.

Mr. FULTON. Then the repairs on the basis of that A. G. C. schedule certainly wouldn't be unfair to these contractors.

Captain RICHARDSON. I wouldn't think so, in some instances, unless you have a job which was particularly hard on your equipment.

Mr. FULTON. Would you agree with Mr. McNairy that he should not only take the A. G. C. schedule but add a sixth to it?

Captain RICHARDSON. I have always figured the A. G. C. is as our new schedule is—240 hours a month, 30 days a month, and 8 hours a day on the original basic shift, with 50 percent of the basic rate to be paid for additional shifts.

Mr. FULTON. The only thing I was trying to reach was the question of the conclusion as to whether adding a sixth to the A. G. C. wouldn't be expected to give him substantially more than his actual ownership expense.

Captain RICHARDSON. As I stated, my interpretation of the A. G. C. ownership expense has been that it was based on a 30-day month, making no deductions for Sundays and holidays, as it states.

Mr. FULTON. Are you familiar with these two schedules of the Associated Equipment Distributors?

Captain RICHARDSON. Yes, sir; I am.

Mr. FULTON. The so-called Red and Green?

Captain RICHARDSON. I received a copy of the Red schedule, and they asked for our comment. I stated that it was too high. Then they came with the Green schedule. The Green schedule is the final schedule; the Red one was preliminary.

Mr. FULTON. The Green was lower than the Red?

Captain RICHARDSON. Yes; in many items I understand it was lower. I didn't have time to go over each particular item. I had to take them as a general thing, and we particularly took under consideration a large number of the items which we are renting, for instance, tractors, shovel equipment, dragline equipment, and grading equipment.

Mr. FULTON. How does that Green one, even though it is lower than the Red, compare with the contractors' schedule?

Captain RICHARDSON. Reimbursement to the contractor? It was, to the best guess, at least 40 to 43 percent over the White schedule, dated May 1941.

Mr. FULTON. That is your schedule?

Captain RICHARDSON. That is correct.

Mr. FULTON. And in between yours and that would be the contractors' schedule?

Captain RICHARDSON. That is correct; yes, sir.

Mr. FULTON. Now, many, many of these items that you see in these lists run considerably higher than even that Green schedule, which is 43 percent over your estimated ownership expense. What happens when you see that kind of thing?

Captain RICHARDSON. When we see it—in other words, take a specific camp, and I can tell you whether it has been found. In the cases I have found, I have gone back for reimbursement for the Government, in every instance requiring the contractor to go back to that particular schedule.

Mr. FULTON. You negotiated a change back?

Captain RICHARDSON. That is correct. On December 17, 1940, General Field Letter No. 35 was sent from my office, showing how to compute rentals under our original White schedule, and that no rates would be paid above that.

Mr. FULTON. I noticed one instance in which one contractor was charging time and a half for overtime on a machine.

Captain RICHARDSON. That is the only instance in the country, and they said it was a misinterpretation of the contract. We are trying to see if we can't do something about it right now.

Mr. FULTON. Well, generally speaking, where you have seen these higher rates—

Captain RICHARDSON (interposing). We have immediately investigated it and required them to reimburse the Government and to get the reimbursement directly back to the White schedule.

Mr. FULTON. Have you investigated to find out why the quartermaster allowed it in the first place?

Captain RICHARDSON. Well, usually the quartermaster is a pretty busy man, and he has to delegate this authority to a machinery man. I am speaking of a mechanical officer, not a machinery man. You usually find that the mechanical officer may approve these contracts for him. For instance, he would have eight or nine hundred of these contracts on the job, and he will approve them and come in, and the quartermaster has to have confidence in the man under him and think that he will carry his job well.

Mr. FULTON. Are some of these mechanical officers, mechanical men, salesmen, or ex-salesmen of equipment?

Captain RICHARDSON. I have found very few that had really construction equipment experience. There are very few that I can find in the United States. I have two in my office, and there are two in the field that are definitely very good mechanical engineers, and the zones now have a good mechanical engineer and, whether he be an officer or a civilian, he gives them closer contact and puts them in a position to get better valuations on the equipment.

Mr. FULTON. Have they displaced these men who made those mistakes?

Captain RICHARDSON. Yes, sir; they have. They have been changed to other jobs with which they are more familiar.

Mr. FULTON. Has any notation of that particular thing been forwarded by your office with respect to the question of the constructing quartermaster himself. I don't mean names.

Captain RICHARDSON. No; of course. If I went to a camp and they were having trouble with equipment rentals in the camp, when I came back in, it would be up to me to make recommendation as far as mechanical equipment and how it was handled to the chief of the construction division, of the job they were doing, and a true picture of it. That would be a recommendation of doing a good job or a bad one.

Mr. FULTON. There will be some more camps built very shortly.

Captain RICHARDSON. That is correct.

Mr. FULTON. We don't want the same mistakes to be made by the same men.

Captain RICHARDSON. I can assure you, Mr. Fulton, that we have in the zone offices not only officers that are very familiar with rental equipment, but also civilians that are under them as inspectors.

The CHAIRMAN. That is all, Captain.

Captain RICHARDSON. Thank you, sir.

The CHAIRMAN. Mr. Farnum. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. FARNUM. I do.

TESTIMONY OF ELDON M. FARNUM, SALES MANAGER, GEORGE F. SMITH CO., ST. LOUIS, MO.

The CHAIRMAN. Just be seated and give the reporter your name and connections, please.

Mr. FARNUM. Eldon M. Farnum, sales manager for George F. Smith Co., St. Louis, Mo.

The CHAIRMAN. Proceed, Mr. Fulton.

Mr. FULTON. Mr. Farnum, would you tell us your association or connection with the question of the equipment rented on construction projects?

Mr. FARNUM. It is my duty, as sales manager of the company that I represent, to supervise sales and rentals and servicing of equipment for my company.

Mr. FULTON. Your company is a dealer in equipment?

Mr. FARNUM. We prefer to be called a distributor.

Mr. FULTON. That is, you buy directly from the manufacturer instead of through a distributor?

Mr. FARNUM. That is correct, sir.

Mr. FULTON. And do you also rent equipment?

Mr. FARNUM. Yes, sir.

Mr. FULTON. What company is that?

Mr. FARNUM. The George F. Smith Co., of St. Louis.

Mr. FULTON. And is it a member of an association of equipment distributors?

Mr. FARNUM. Yes, sir.

Mr. FULTON. What is that association?

Mr. FARNUM. What is the Associated Equipment Distributors? The Associated Equipment Distributors is a national organization of firms engaged in the renting, servicing, and supplying of construction jobs with construction machinery.

Mr. FULTON. Are you an officer of that, or were you?

Mr. FARNUM. I am not an officer of the A. E. D. I am chairman of the rental committee for A. E. D., sir.

Mr. FULTON. And as such were charged by the trade association with working on this particular problem?

Mr. FARNUM. That is correct, sir.

Mr. FULTON. Was it you who prepared the Red and Green schedules that were referred to by Captain Richardson?

Mr. FARNUM. Yes, sir.

Mr. FULTON. As I understood it—correct me if I am wrong—that Red schedule was prepared in about 3 days, was it not?

Mr. FARNUM. In one sense, Mr. Fulton, that is correct. However, the work that I had been doing on preparing the schedule dated back over a period of about 5 years.

Mr. FULTON. Had you circularized these companies to find out their profits and their ratios?

Mr. FARNUM. No; I didn't circularize them to find out their profits. I asked them for information as to rental rates that they were receiving for equipment they rented.

Mr. FULTON. Well, in the equipment-rental business, at least in regular years, without defense program, it is a hazardous business, is it not?

Mr. FARNUM. That is correct; yes, sir.

Mr. FULTON. They may have equipment that will be rented, although capable of being used 12 months a year, only 2 or 3 months, or even less?

Mr. FARNUM. I can say, Mr. Fulton, that the average equipment owned by a distributor generally is rented approximately 4 to 6 months out of each year.

Mr. FULTON. And what I meant was that you are not always sure at regular times whether yours will be 3 or 6 months?

Mr. FARNUM. That is correct.

Mr. FULTON. Therefore, there is quite a hazard in dealing in that particular business.

Mr. FARNUM. That is right.

Mr. FULTON. When you have a defense program coming along which will use all the equipment that can be put out, doesn't that, by reason of eliminating part of that hazard, render it possible to rent that equipment for less rather than more than you were getting before?

Mr. FARNUM. I don't believe that the equipment is being rented for more. My honest opinion is that in a good many cases—I am speaking now from the experience of the company that I represent—it is being rented for less. There are features that enter into this defense program; that is, that in a good many cases the equipment is being recaptured, and when it is recaptured, if you will pardon me, please, we are financing the Government on that equipment that they are renting; and with a good portion of it being recaptured, we, in effect, are not renting the Government equipment—we are selling it to them on extended terms which we wouldn't ordinarily accept under ordinary conditions.

Mr. FULTON. By that you mean that this double phase of the thing, that is, rental and sale—

Mr. FARNUM. That is right.

Mr. FULTON. Makes it difficult for you to fix either rates or sales prices?

Mr. FARNUM. Say that again, please.

Mr. FULTON. What I meant was that, being a hybrid type of contract, it partakes of a good deal of the vice of both and loses some of the virtues of both, from your standpoint as well as from the Government's.

Mr. FARNUM. In effect, that is correct, sir.

Mr. FULTON. If they were asking you for a sale and nothing but a sale, would you be necessarily asking for these percentages over and above your net cost? I don't know. I am just inquiring.

Mr. FARNUM. Well, if you came to me and asked me to sell you a piece of equipment, I would quote you one price if you were going to pay for it right now.

Mr. FULTON. In cash.

Mr. FARNUM. That is right. If you asked me to sell you a piece of equipment over a period of a year, then, naturally, I would have to ask you for at least some financing charge.

Mr. FULTON. And because of the uncertainty involved in an option, uncertainty that might keep your money tied up or might release it at times that you didn't expect it to be released, you have to take that into consideration.

Mr. FARNUM. That is correct. There is an element of risk involved there. That is right.

Mr. FULTON. So the conclusion is accurate that even from your standpoint, if you were selling it, you probably would have sold at lesser prices.

Mr. FARNUM. Well, that, Mr. Fulton, would depend. There are a number of features involved there. If we are speaking of the depression days, yes; if you are speaking of depression days when you had hardly enough work in your plant to keep your plant operating, you would either sell or rent to keep your organization together at prices lower than you would if your plant was operating at full capacity, whether it be a rental or a sale, and I think that is justifiable.

Mr. FULTON. Do you agree with Captain Richardson's testimony with respect to those pick-up trucks, that we could have bought them, in that case at Camp Blanding, for 35 percent or more less than we were paying for them under that recapture provision with a distributor?

Mr. FARNUM. Well, Mr. Fulton, the element of competition would enter into that picture. If you bought one truck or if you bought five trucks, that would be one picture. If you bought a hundred trucks, that would be another picture. If you bought them from a distributor, that would be one story; if you bought them from a manufacturer, that would be another story. Whether or not the prices would be higher or lower would depend, as I said before, on whether a manufacturer, with his plant going at full blast and being unable to obtain the necessary materials for manufacture, would quote you a lower price, I don't know. It may be possible that under the present conditions if you went out to purchase brand-new equipment from a manufacturer, it might still be necessary to pay prices considerably higher—I am speaking of the present time—than you might have paid 3 or 4 years ago, or 2 years ago.

Mr. FULTON. My question, though, related to the question of the fleet truck purchases. Have you any reason to disagree with his statement that the Government can—in fact, is, I think—buy pick-up trucks from the Ford Motor Co. at such substantially lower percentages?

Mr. FARNUM. Mr. Fulton, you are in a better position to know than I am. I am not familiar with the quantity purchases by the Government. The company that I represent have never sold any branch of the Government here in Washington equipment in fleet lots. In fact, we have never sold anything, to the best of my knowledge, to the Government here in Washington. Therefore, I would be willing to accept either yours or Captain Richardson's

advice as to just what you could do in that respect. I don't mean to say that buying in quantities, you can't buy cheaper. It is only reasonable to assume that you could under certain conditions.

Mr. FULTON. Well, did you, as an equipment distributing rental committee, try to set up a schedule of recapture prices or any criteria by which they should be determined?

Mr. FARNUM. No, sir. Each individual distributor sets his own recapture value on a piece of machinery.

Mr. FULTON. Then you limited yourself to the question of rentals?

Mr. FARNUM. Preparing an average rental schedule to be used as a guide, that is correct, sir.

Mr. FULTON. Would you disagree with his conclusion that your schedule is some 43 percent, that is, your Green schedule, higher than the Army's estimate of ownership expense?

Mr. FARNUM. Sir, I can't answer that question because I have never seen the schedule that Captain Richardson referred to. I would have to check that.

The CHAIRMAN. Are you familiar with the Associated General Contractors' Ownership rental?

Mr. FARNUM. Senator Truman, I may have misunderstood the captain's statement. I was of the opinion that he was referring to the new schedule that was set up by the constructing quartermaster. I don't believe that he was referring to the A. G. C. schedule.

Mr. FULTON. Well, the A. G. C. is between the two.

Mr. FARNUM. That is right.

The CHAIRMAN. I was asking you if you are familiar with the A. G. C. schedule.

Mr. FARNUM. I have been familiar with the A. G. C. schedule; yes, sir. I have familiarized myself with it to a limited extent.

Mr. FULTON. How much above that schedule did you set your distributor schedule?

Mr. FARNUM. When the distributors' schedule was prepared, there was no consideration at all given to the A. G. C. schedule. What we were interested in was finding out what rates were being charged by the various distributors throughout the country and setting up an average figure to be used as a guide.

Mr. FULTON. And was that average figure supposed to be, as nearly as you could make it, the average of what the rates had been in the previous period?

Mr. FARNUM. As nearly as I could make it; that is correct, sir.

Mr. FULTON. I note that some of your rates, for example, are as high as over 100 percent more than this contractors' schedule, which is itself higher than the ownership expense as estimated by Captain Richardson.

Mr. FARNUM. Well, Mr. Fulton, that may be correct. I can't answer for the A. G. C. schedule. I know nothing about it, and I know nothing about the mechanics that were involved in setting up the A. G. C. schedule. I do know this, however, that they were set up for two entirely different purposes. As I understand the A. G. C. schedule, it was simply prepared as, you might say, a contractor's cost.

Mr. FULTON. That is right, and yours is cost plus profit.

Mr. FARNUM. Ours was a cost and a profit; yes, sir. We admit—

The CHAIRMAN (interposing). Yours was set up on the basis of what the traffic would bear, and the other was set up on the basis of what the contractor ought to charge off on his own books. Isn't that correct?

Mr. FARNUM. No, Senator Truman, that is not correct. The green schedule was based on cost of doing rental business.

The CHAIRMAN. I say it was on what the traffic would bear—what you could get.

Mr. FARNUM. There is a difference between cost and what the traffic will bear.

Mr. FULTON. Yours is cost plus profit, and theirs was cost.

Mr. FARNUM. That is right, but I want to make that distinction, that there is a definite difference between getting as much as you can and getting what will show you a legitimate profit.

Mr. FULTON. That is just what I was getting at. When that profit is 100 percent of the cost, it gets a little bit high, doesn't it?

Mr. FARNUM. I sent you some figures, Mr. Fulton, that made up the net profits of the distributor doing business. I believe those figures will show that the net profit in our total business on dollar volume of business done was somewhere around 2¼ percent.

Mr. FULTON. What is the profit on assets employed in your business?

Mr. FARNUM. I am going to qualify myself. I think I am justified in qualifying myself to this extent. I am the sales manager, not an auditor. My business with my company is to get as much business as I possibly can, to keep the prices as low as possible—that is the duty of every sales manager—and still to show a legitimate profit to my company. Now, the mechanics of making up this statistical information was not in my hands, and my knowledge of accounting is very, very limited. Therefore, I may have—

The CHAIRMAN (interposing). You seem to have done right well at it.

Mr. FARNUM. Sir?

The CHAIRMAN. You seem to have done right well at it, which is a compliment to you, sir.

Mr. FARNUM. Thank you, sir.

Mr. FULTON. In order to determine whether you are making a sizable profit or a small profit, I should think you would take the profit on your investment. I just wondered what that amounted to. I haven't been able to find it for most equipment companies.

Mr. FARNUM. That is a question that I can't answer you, sir. I am interested in my company, in the profit that my company makes on the volume of business that we do. I am limited to that.

Mr. FULTON. What does it make on the assets that it employs in the business? That is what I was asking.

Mr. FARNUM. That is a question that I can't answer, either. I am sorry.

The CHAIRMAN. That is all, Mr. Farnum. Thank you.

Mr. Harrison Smith, of Sanderson & Porter. Mr. Smith, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SMITH. I do.

TESTIMONY OF HARRISON SMITH, OF SANDERSON & PORTER, NEW YORK, N. Y.

The CHAIRMAN. Be seated, Mr. Smith. Will you give the reporter your name and connections, please, for the record?

Mr. SMITH. Harrison Smith, partner of Sanderson & Porter, now living in Joliet, Ill., representing my firm in connection with the contract which we have for the design, construction, and operation of Elwood Ordnance Plant.

The CHAIRMAN. Proceed, Mr. Fulton.

Mr. FULTON. Mr. Smith, will you tell us something about the nature of the business that your firm was in prior to the defense emergency?

Mr. SMITH. Sanderson & Porter, the firm that was established in 1896, I believe, by E. N. Sanderson and H. Hobart Porter, was primarily an engineering firm. In the early days they engaged in street railway design and construction, electric powerhouse work, street railroad work, and matters of that kind. Through the subsequent years the scope of the business expanded, and now comprises an industrial department, making reports on businesses of all kinds for various purposes, sometimes for the information of those who own the business, sometimes for the information of investors contemplating loaning funds to the business. We also design and build powerhouses, both steam generating and hydroelectric, natural-gas projects, both design and construction; oil engineering, both design and construction; supervision of public utility companies in an advisory capacity; and in general doing all kinds of business related to engineering, I would say, in the common sense of civil, electrical, and mechanical.

Mr. FULTON. Do you have any defense projects on which you are working other than the Elwood Ordnance?

Mr. SMITH. No—well, I should probably qualify that. We are doing some powerhouse construction for a public utility company in connection with a defense project which that company is building to furnish power to a defense project.

Mr. FULTON. You are doing that on a cost-plus-fixed-fee basis?

Mr. SMITH. We are doing it on a fixed fee basis, yes, sir.

Mr. FULTON. And are you doing your private work for other companies other than that as well as the Elwood Ordnance?

Mr. SMITH. Yes, sir.

Mr. FULTON. I mean in carrying on your private business.

Mr. SMITH. That is right, sir.

Mr. FULTON. How does that private business compare in volume with what you were doing before you got the Elwood Ordnance Plant, more or less?

Mr. SMITH. I don't know whether I understand you, sir.

Mr. FULTON. I just want a rough approximation as to whether you are still having as much or more or less.

Mr. SMITH. Yes, I think we have approximately the same business that we had before the Elwood Ordnance job came up. Of course,

our business fluctuates from year to year. Some years are good years, some years are bad years. But we are at least doing a normal business outside of the Elwood work.

Mr. FULTON. So that you could say of that that it is something over and above and in addition to what you were doing before?

Mr. SMITH. That is right.

FEE RECEIVED BY SANDERSON & PORTER FOR ELWOOD ORDNANCE PLANT
CONSTRUCTION AND OPERATION

Mr. FULTON. What is the amount of the fixed fee that was agreed on for your firm on the original Elwood Ordnance project?

Mr. SMITH. My recollection is, it was \$454,700.

Mr. FULTON. And as I understand it, you are obtaining or have obtained further contracts for further work on the arsenal.

Mr. SMITH. That is correct.

Mr. FULTON. How much does that amount to?

Mr. SMITH. The fee on that, as I recall, is \$125,000.

Mr. FULTON. Are there any other sums in addition to those which will or can accrue to Sanderson & Porter in connection with those projects at Elwood Arsenal?

Mr. SMITH. Yes, sir, there are.

Mr. FULTON. How much are they?

Mr. SMITH. In connection with the equipping of the plant and putting it in operation on the basis of operating for a year—no, let me correct that. On the basis of operating until all of the plant is ready to go into operation. I guess I had better restate the whole thing.

The CHAIRMAN. Go ahead and take your time.

Mr. SMITH. We have an agreement for payment of \$420,000 for 12 months' operation. Prior to operating, for equipping the plant and training personnel and managing the business, an additional \$240,000.

The CHAIRMAN. That is in addition to these original fees of \$420,000 and \$125,000?

Mr. SMITH. That is right.

The CHAIRMAN. What is the total cost of that Elwood plant? How much would it amount to?

Mr. SMITH. Including the supplementary work, the cost of the land, Quartermaster overhead, various and sundry, it will run a little over \$36,000,000—36 to 37.

The CHAIRMAN. You are going to operate the plant for a year and train personnel and then continue its operation? Is that correct?

Mr. SMITH. It is a little different from that. As we bring a loading line in, for instance, we have made our preparations to operate that loading line and have trained our personnel, and at the present time we have one line in operation. As the additional lines come in, we train personnel for those lines. When all of the lines are in, then our 12 months' contract begins.

The CHAIRMAN. After all the lines are in, your 12-month contract then begins?

Mr. SMITH. That is right, \$420,000.

The CHAIRMAN. And you operate that for 1 year and turn it over to the Government?

Mr. SMITH. They have the option, of course. They can cancel at any time. But at the end of 12 months, if they wish to retain us to operate for an additional 12 months, that is their privilege.

Mr. FULTON. Adding those figures you gave me, that would appear to be a total amount for you up to \$1,239,000. Is that approximately correct?

Mr. SMITH. That is correct, sir.

Mr. FULTON. I note that over a 5-year period before this you were averaging about \$250,000 a year with all your business. Is that approximately correct?

Mr. SMITH. I presume that is right. You are reading it from the record—our statement.

Mr. FULTON. You might take a look at it here.

Mr. SMITH. I don't question but that you are right about it, Mr. Fulton.

Mr. FULTON. And in fact, you hadn't been obtaining that good an average for the last 2 years before the emergency.

Mr. SMITH. That is right.

Mr. FULTON. Your better years were back around 1936 and 1937.

Mr. SMITH. And prior to that, when there were better years for most people, I think, probably.

Mr. FULTON. Isn't it a rather large fee here to get 5 years' profit plus your regular business, anyhow, for constructing this plant?

Mr. SMITH. No, sir; I think this is a real job, Mr. Fulton, that we have on this Elwood plant, and I don't think our profit—of course these fees are not all profit, you understand, but I don't think the fees are unduly large, nor do I think our profit will be unduly large.

Mr. FULTON. Well, in other words, you think it is worth 5 years' profits to do this?

Mr. SMITH. I wouldn't refer to profits. Of course, we try to make all the profits we can legitimately each year we are in business, but for the particular work we are doing at Elwood Ordnance Plant, I do not feel that either our fees or profits are inordinate.

Mr. FULTON. Looking at your assets there, am I correct in assuming that they are something about half a million dollars, so it is about two and a half times your assets, even?

Mr. SMITH. You know, it is a partnership, and the assets of each partner are back of the business of Sanderson & Porter.

The CHAIRMAN. How many partners are there in Sanderson & Porter?

Mr. SMITH. I think there are six now.

The CHAIRMAN. Is Mr. Blossom still a member of it?

Mr. SMITH. Mr. Blossom is still a member of the firm, but he doesn't participate in the profits.

The CHAIRMAN. Or in the new Elwood Arsenal?

Mr. SMITH. No, sir.

The CHAIRMAN. Neither the new or the old?

Mr. SMITH. No, sir, he does not participate in the profits of Sanderson & Porter, as I recall, for the year 1941. Now, what it will be after that, I don't know.

Mr. FULTON. Just how many men does the firm of Sanderson & Porter furnish to the Government for this million and a quarter—the nonreimbursable men, the people the Government doesn't pay for?

Mr. SMITH. Well, of course, the Government doesn't pay anything for my services.

Mr. FULTON. That is one. Is that full time?

Mr. SMITH. Yes, sir.

Mr. FULTON. Is there any other full-time man?

Mr. SMITH. Yes. The New York partners in the New York office of Sanderson & Porter are not reimbursable.

Mr. FULTON. Are any of those men working on this full time?

Mr. SMITH. No; I don't think so; full time, of course, but it is a business firm, and naturally they participate in the management of the business.

Mr. FULTON. And in addition to yourself and the part time of your partners, do you furnish the full-time services of anyone?

Mr. SMITH. We do not furnish the full-time services of anyone, but we do pay certain of our personnel much more than we are reimbursed by the Government.

Mr. FULTON. I think you figured that about \$2,000 a month.

Mr. SMITH. No; it will be much more than that.

Mr. FULTON. That was the figure I obtained from the War Department. I thought they had probably obtained it from you.

Mr. SMITH. That may be—no, I think that is an underestimate, Mr. Fulton. I don't remember just what it is, but I have a number of associates in this job who are men of quite extensive experience in this particular kind of work. They are associated with me in this work, and they draw a monthly salary from the Government. In addition to that, we also make them monthly payments, and in addition to that, if we have a profitable job, I suspect that they will get additional moneys.

Mr. FULTON. Did you furnish that estimate to the War Department, or was that one they made up?

Mr. SMITH. No, sir; I furnished it. Whatever it is, I furnished it, and I don't doubt but that they are correct in it, only I just don't have the figures.

Mr. FULTON. I think it was said that it might increase as the job got on, but that at present it was thought to be around \$2,000 a month.

Mr. SMITH. Well, that may be. I don't remember just what the figures are.

The CHAIRMAN. Will you furnish us the figures accurately for the record, so the record will be straight on it?

Mr. SMITH. I will be glad to do that. I am perfectly willing to accept that which the War Department gives, because I know we furnished it to the War Department, only I just don't have it.

Mr. FULTON. Well, then, is there any other nonreimbursable expense that you have out of this \$1,239,000?

Mr. SMITH. Yes; the general expense of Sanderson & Porter doing business, of course. That is a part of our cost and is naturally not reimbursed. Sanderson & Porter have a New York office and a San Francisco office and a Chicago office, and carry on a general engineering business.

Mr. FULTON. Do you have to have a New York office and a Chicago office and a San Francisco office to build an ordnance plant?

Mr. SMITH. I know; but when you are in business, you have general overheads, which are comprised in all those offices.

Mr. FULTON. But you had that overhead for the regular business.

Mr. SMITH. That is right, but there is no reason why the new business shouldn't take its share of the general cost of doing business that I know of.

Mr. FULTON. You still have the business that you had the overhead on.

Mr. SMITH. Well, we have, just as any other professional man has his business. He has it today—he may not have it next month; he may not have it for 3 months. It depends upon the status of the industry and the country.

Mr. FULTON. Outside of that overhead, is there any nonreimbursable expense?

Mr. SMITH. Well, that is a large question. The only reimbursable expense in connection with Elwood ordnance plant is the time of men actually engaged on that work. The Government reimburses—

Mr. FULTON (interposing). All men, all material, and all equipment?

Mr. SMITH. That is right.

Mr. FULTON. And the office facilities?

Mr. SMITH. And the office facilities on the job; that is right, sir.

Mr. FULTON. That is the only reimbursable expenses?

Mr. SMITH. That is right. Pardon me, I am making a pretty broad statement here. You might find that there might be some others that are reimbursable, but I don't recall any at the present time.

PERSONNEL ORGANIZATION OF SANDERSON & PORTER

Mr. FULTON. The Government, I take it, has hired, in effect, the services of yourself and the part-time services of your partners and these associates that you have referred to, who are in part, a relatively small fractional part, being reimbursed by you. I would like you to tell us the general experience of those men in the gun-loading or similar work. I understood you had such experience.

Mr. SMITH. Yes; I did. I would be very glad to do that. During the last war I was associated with the T. A. Gillespie Co., of New York City. The T. A. Gillespie Co. entered the shell-loading business by taking a contract with the Russian government to load certain shells and components for the Russian government. In order to fill this contract, they built about three munition loading plants in New Jersey. When the United States came into the war, they continued these plants in the loading of shells and ammunition for the Government.

Mr. FULTON. The plants were actually in operation.

Mr. SMITH. That is right. Now, in addition to that, they made a contract with the United States Government to build and operate a plant at Morgan, N. J., which is near South Amboy, N. J. I was connected with the latter enterprise. I was assistant superintendent of construction and later, assistant superintendent in charge of operations. Mr. W. E. Canniff, who, in connection with the Elwood job, is manager of operations and also in charge of engineering, was superintendent for the T. A. Gillespie Co. in the operation of the private plants which they had.

Mr. FULTON. He is now one of these individuals?

Mr. SMITH. He is now associated with us at Elwood.

Mr. FULTON. Now, was he associated with you in the Sanderson & Porter Co. prior to this undertaking?

Mr. SMITH. No; he was engaged in private business in New York City.

Mr. FULTON. And he is one who is receiving a salary from the Government, to which you are adding some money?

Mr. SMITH. That is right.

Mr. FULTON. Would you continue?

Mr. SMITH. Mr. Canniff, I would say, probably had as much experience in shell-loading as any other person in this country, certainly outside of the Ordnance Department. I value his services very highly. He has done a grand job with us, and I have no doubt he will continue to do so.

Mr. FULTON. I take it he did an excellent job in the last war?

Mr. SMITH. He did; yes.

Mr. FULTON. But he left that particular type of work for a period of approximately 20 years.

Mr. SMITH. That wasn't very popular work for 20 years.

Mr. FULTON. But the Ordnance Department, I understand, had some men working on it during that time?

Mr. SMITH. I imagine they did; yes, sir.

Mr. FULTON. As a matter of fact, you sought their experience, didn't you, when you wanted to go back into this work?

Mr. SMITH. These particular gentlemen to whom I am referring now?

Mr. FULTON. No; I mean you went to the ordnance arsenals—

Mr. SMITH. Oh, yes; I value the Ordnance Department very highly.

Mr. FULTON. To find out what had been happening in the interim?

Mr. SMITH. That is right; yes, sir. Almost any engineer would do that if he were thinking about the possibility of engaging in that kind of work. I think.

In addition to Mr. Canniff, I have associated with me Mr. Thomas Burns. Mr. Burns was employed in the private plants of T. A. Gillespie Co., in New Jersey, first in the loading of shells, and later he was in charge of the Oliver plant, loading fuzes and boosters for the Government.

Mr. FULTON. Did he likewise go into private work?

Mr. SMITH. He did.

Mr. FULTON. And he likewise was not an employee of Sanderson & Porter?

Mr. SMITH. He likewise was not. He was an employee of the American Locomotive Co. Just how long he had been there, I don't know.

Mr. FULTON. How many more of these would there be, in the aggregate?

Mr. SMITH. I would say probably six or eight more of men who are in key positions.

Now, in addition to that, no doubt we will have with us other men that work in various departments and maybe foremen to head up the departments.

Mr. FULTON. But the organization which you, in effect, offered the Army was one consisting of yourself and the services of your partners, to whatever extent they might contribute, and the services of

these six or eight key men who had not been employees of Sanderson & Porter, but who had, during the last war, had experience in gun loading?

Mr. SMITH. That is right. Now, of course, we do have associated with us at Elwood, men who have heretofore been employed by Sanderson & Porter, of course, we took from our regular organization.

Mr. FULTON. I take it this superintendent had been your immediate superior during the war.

Mr. SMITH. No. Mr. Canniff, the manager of operations at Elwood? No; he was not my superior at all.

Mr. FULTON. I thought you said he was superintendent and that you were assistant.

Mr. SMITH. He was general superintendent of the Gillespie private plants; I was at the Morgan plant, which was an agency contract.

Mr. FULTON. Would you tell us how it came about that you gathered together this group who were not in any way associated with Sanderson & Porter, for the purpose of getting a contract, not for the group, but for Sanderson & Porter?

Mr. SMITH. Well, naturally, as a partner of Sanderson & Porter, I was interested in getting new business, and in 1939 the activities in Europe indicated possibly that the United States might get into the war. Having been through the shell-loading business in the last war, it occurred to me that Sanderson & Porter might be helpful to the Government in the design and construction and operation. I wrote a memorandum to my firm in October 1939, bringing my thoughts to their attention in connection with possible new business. Shortly thereafter, the Ordnance Department—that is, the representative of the Ordnance Department in New York—became active. They were canvassing the various industrials as to what they might do in the preparedness program, and after talking it over with my firm and my partners were interested in it, I called on Colonel Clement in New York, who was—I don't know just what his position is, but he headed up the office representing the Ordnance Department in canvassing various industries in connection with preparedness. He said that he didn't have anything to do with the type of work which I was discussing with him, that is, possibly to build and operate a plant, and he suggested that I talk to Major Harris, in Wilmington.

I called Major Harris on the telephone and told him of my talk with Colonel Clement, and I told him I would like to come down to see him. He said he would be glad to see me, but he didn't have anything to do with that part of it, and he suggested that I talk to Colonel Booth in the Ordnance Department in Washington.

So I came down to Washington with my partner, Mr. Hamill, and from time to time we stopped in to talk to Colonel Booth. I told him of my experience. I told him of the men with whom I was associated in the last war in this kind of business.

Mr. FULTON. Had you already made your association with these gentlemen?

Mr. SMITH. No, no; because that was pretty early in the game. You don't make associations that way. Sometime during the period subsequent to the memorandum which I wrote my partners, I had renewed my acquaintance with a number of them. You know, in

New York you are inclined sometimes to forget old friends and acquaintances. Well, having in mind the possibility of a business of this kind, I renewed my acquaintances with them.

Mr. FULTON. You suggested to these men that you enter into a joint venture?

Mr. SMITH. Not then I didn't, because I had no basis for making any suggestion to them.

Mr. FULTON. Have you as yet?

Mr. SMITH. Oh, yes; I have now.

Mr. FULTON. I thought they were employees paid by the Government, in the main.

Mr. SMITH. Who is that?

Mr. FULTON. The six or eight men.

Mr. SMITH. They were never employed by the Government except—

Mr. FULTON (interposing). I mean now they are employed by the Government.

Mr. SMITH. They are, yes; but I am talking of my discussion with Colonel Booth. Maybe I rambled a little too much.

Mr. FULTON. What were you offering Colonel Booth—just your experience?

Mr. SMITH. I was offering Colonel Booth the facilities in engineering, construction, and operation of Sanderson & Porter, and I was offering him the experience of Sanderson & Porter, particularly as represented by one of their partners and, by the ability of that partner, to associate with him men who knew about this business, which we thought possibly the Government might be interested in giving us.

Mr. FULTON. Did you inform him that Sanderson & Porter had had no connection, except yourself, with gun-loading plants?

Mr. SMITH. It wasn't necessary. I didn't elaborate on that. I tried to tell him what I knew about it and what my associates could do and what I felt Sanderson & Porter could do.

Mr. FULTON. Did you tell him who these associates would be?

Mr. SMITH. Not Colonel Booth, because Colonel Booth was not particularly interested. It was a very general discussion that was carried on over a period of months.

Mr. FULTON. Will you proceed with the discussion or with the events as they unfolded themselves?

Mr. SMITH. Either Mr. Hamill or myself or one of my other partners called upon Colonel Booth and his associates from time to time. Each time we would discuss with him general matters in connection with ammunition loading. I had not kept abreast of the times. I didn't know what had developed in that way. We had general discussions, and finally I asked if my partners or myself might visit Picatinny Arsenal to observe some of the operations then going on, to see just what the status of the art was and what improvements had been made. Through the Chief of Ordnance we obtained that permission, and we did go to Picatinny Arsenal.

Mr. FULTON. By "we," you mean yourself?

Mr. SMITH. Myself; Mr. Hamill; our general construction manager, Mr. Hamilton; and possibly someone else. I don't remember.

The CHAIRMAN. Just what does Sanderson & Porter as a firm of engineers furnish to the Government aside from these experts that are employed by Sanderson & Porter and paid by the Government?

Mr. SMITH. Well, we furnish them business ability, I hope, and a real service, I am sure.

The CHAIRMAN. You furnish the plans and specifications for the plant. Did you draw them?

Mr. SMITH. We did. Not in all instances. We were furnished typical plans, as they were called, and we were furnished specifications also. But when we got the plans and saw our contract, what was proposed to be our contract as to capacities, it was our opinion that considerable changes might well be made in these plans in order to get the capacity which the Government desired. Now that is a matter of judgment where there are different people making designs.

The CHAIRMAN. Were these plans drawn by the Ordnance Department?

Mr. SMITH. The so-called typical plans were drawn by the Ordnance Department, and were furnished to us.

The CHAIRMAN. Couldn't the Government just as well have carried them out by hiring these people themselves without having to pay a big fee to Sanderson & Porter?

Mr. SMITH. I don't think so.

Mr. FULTON. Outside of yourself and the part-time services of your partners, the Government isn't obtaining any services from anyone that it isn't paying the cost of, is it?

Mr. SMITH. Well, the Government gets an experienced organization of competent people.

Mr. FULTON. With respect to these six or eight persons, would you tell us the exact nature of the arrangement you had? You said that you expected, if it was profitable, to make—

Mr. SMITH (interposing). I had no arrangement.

Mr. FULTON. They are employees, pure and simple?

Mr. SMITH. They are employees, pure and simple, and they know Sanderson & Porter will treat them right, and that is all they know, and nobody has any promise.

Mr. FULTON. Did it ever occur to you that if you were to get this contract on the basis of the experience of six or eight persons not connected with your firm, that you might associate them at least as joint venturers in this fee?

Mr. SMITH. It never occurred to me that that was the basis under which we would get this contract, that it was because I had seven or eight men who I stated were qualified. This contract was obtained by Sanderson & Porter because the Ordnance Department had confidence in Sanderson & Porter and Sanderson & Porter's reputation as businessmen—that combined with an experienced personnel to do the job which had to be done. Now, it was a pretty large package and you can't break it down into the various units very well.

Mr. FULTON. Did any of these men ever represent to you that they thought they were entitled to participation?

Mr. SMITH. Yes; they have.

Mr. FULTON. And did you agree to give them such participation?

Mr. SMITH. I agreed to give them consideration; yes.

Mr. FULTON. Consideration?

Mr. SMITH. That is right.

Mr. FULTON. Did you say to any of them that it is a question of getting the contract, that Sanderson & Porter was the only company that could get it, the only firm?

Mr. SMITH. I knew Sanderson & Porter was not the only firm that could get it, because there were others after it, too.

Mr. FULTON. Did you say that Sanderson & Porter could get it, but they couldn't?

Mr. SMITH. I didn't say Sanderson & Porter could get it. I said, "Sanderson & Porter is going to try to obtain a contract with the Government. If we obtain that contract I would like very much for you to be associated with us."

Mr. FULTON. Did you say that you knew that Sanderson & Porter could at least be considered, but you knew that they wouldn't if they were just private individuals?

Mr. SMITH. No, no; I never discussed it in that way. They are not that kind of folks and we are not that kind of people, either.

Mr. FULTON. They were satisfied to just take——

Mr. SMITH (interposing). They believe that Sanderson & Porter will treat them right.

The CHAIRMAN. Did you have any agents employed here in Washington, agents of Sanderson & Porter, to use their influence with the War Department?

Mr. SMITH. No, sir; we did not, sir.

Mr. FULTON. Did you personally know that Mr. Blossom was going down to that Construction Advisory Committee?

Mr. SMITH. I was as much surprised as anybody. I had no idea that he was going there until after he had accepted the appointment, and when I talked to the Ordnance Department during all these months, I had no thought about it. I didn't even know there was going to be an advisory committee.

Mr. FULTON. At that particular time, though, I note from your memoranda that you were talking, not with the Ordnance Department about the letting of the contract, but with this Quartermaster's section.

Mr. SMITH. We talked with the Quartermaster's section, we talked to the Navy Department, we talked to anybody that had business to give.

Mr. FULTON. But the Navy Department—that was a different time. That was on Quetico base.

Mr. SMITH. We talked about that, we talked about a contract in Panama.

Mr. FULTON. But you were talking to the Constructing Quartermaster section about this ordnance division.

Mr. SMITH. Oh, no, no, no.

Mr. FULTON. I thought you were.

Mr. SMITH. No, sir. I told the quartermaster several times, "I am going over to the Ordnance Department because I have been talking to them about a shell-loading plant." It never occurred to me that the Quartermaster Department would have anything to do with the shell-loading plant at that time.

Mr. FULTON. Didn't you at one point talk with the Quartermaster Department about this?

Mr. SMITH. That was later on after the new set-up came in.

Mr. FULTON. After Mr. Blossom went to Washington?

Mr. SMITH. Yes. Mr. Blossom was in Washington, yes.

Mr. FULTON. Well, at that particular time, according to your memorandum, it seems to me that you contemplated that this contract would be let, that is the contractor would be selected by the quartermaster.

Mr. SMITH. Well, you don't know about these things. We thought maybe he might be, but prior to that time, all of our dealings with respect to shell-loading plants had been with the Ordnance Department. Then later on, when they set up this new regime or new method of doing things in the Quartermaster Department, naturally we were interested in getting a shell-loading plant and we were willing to talk to anybody that might have the letting of that plant.

Mr. FULTON. Well, at that time it was your understanding that it would be that committee, wasn't it?

Mr. SMITH. Well, you know you can get all kinds of understandings in Washington. You can't get facts. You just listen and talk, and you try to attend to your business in a businesslike way. If somebody is going to have a job to give out, you naturally go tell the gentleman that you want the job, and that is all I did.

Mr. FULTON. You did see the Quartermaster Division and you saw them about the shell-loading plant at a time that you thought, due to these nebulous understandings people have in Washington, that they were going to select the contract. Isn't that true?

Mr. SMITH. I think the record does show that, Mr. Fulton. The facts are stated there, sir. I would be delighted to read it into the record. I will read it all. I know all about it.

Mr. FULTON. Didn't you read it last night?

Mr. SMITH. I looked at it, but I didn't try to memorize it.

Mr. FULTON. Perhaps, in lieu of questioning on that, we might simply make that statement which you prepared part of the record, which will speak for itself.

Mr. SMITH. This was taken from our notes in New York, Mr. Fulton.

Mr. FULTON. I mean, you would be willing to have it speak for itself?

Mr. SMITH. Oh, it will speak for itself.

The CHAIRMAN. Put it in the record.

(The document referred to was marked "Exhibit No. 94" and appears in the appendix on p. 1913.)

The CHAIRMAN. We will have to recess until next Tuesday at 10:30. The witness is excused.

(Whereupon, at 12:20 p. m., the committee adjourned until 10:30 a. m., Tuesday, August 5, 1941.)

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

TUESDAY, AUGUST 5, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE TO INVESTIGATE THE
NATIONAL DEFENSE PROGRAM,
Washington, D. C.

The committee met at 10:50 a. m., pursuant to adjournment on Thursday, July 31, 1941, in room 318, Senate Office Building, Senator James M. Mead, New York, presiding.

Present: Senators James M. Mead (acting chairman), Mon C. Wallgren, Ralph O. Brewster, and Harry S. Truman (chairman).

Also present: Hugh A. Fulton, chief counsel.

Acting Chairman MEAD. The committee will please come to order.

Do you solemnly swear that the testimony you are about to give in this proceeding will be the truth, the whole truth, and nothing but the truth, so help you God?

Commander ORT. I do.

TESTIMONY OF LT. COMDR. A. A. ORT, CIVIL ENGINEER CORPS, BUREAU OF YARDS AND DOCKS, NAVY DEPARTMENT

Acting Chairman MEAD. Commander, will you give your name and title to the reporter?

Commander ORT. Lt. Comdr. A. A. Ort, Civil Engineer Corps, U. S. N. R.

Acting Chairman MEAD. Commander, before you initiate your testimony, I would like to have the counsel of the committee ask a few questions.

Commander ORT. Yes, sir.

RENTAL OF EQUIPMENT BY THE NAVY

Mr. FULTON. Commander, I understand that you are familiar with the Navy renting of equipment and machinery for the various naval projects.

Commander ORT. Yes; I am familiar with the general administrative features.

Mr. FULTON. In what department or bureau of the Navy is that done?

Commander ORT. With regard to the construction of public works, it is done in the Bureau of Yards and Docks.

Mr. FULTON. Is there any other bureau of the Navy which rents equipment?

Commander ORT. Yes, I think so.

Mr. FULTON. Is there any coordination between the various other bureaus and your bureau in the renting of equipment?

Commander ORT. Not to my knowledge.

Mr. FULTON. In what division of the Bureau of Yards and Docks is the equipment handled?

Commander ORT. Our equipment is handled in the Progress Division.

Mr. FULTON. Which would, roughly, correspond with the Construction Division of the Quartermaster Corps in the Army?

Commander ORT. We have to do with the administrative features of the fee contracts.

Mr. FULTON. Do you coordinate your work in equipment rentals with the Army's work in the same field?

Commander ORT. We have had several discussions with the Army.

Mr. FULTON. In effect, the Army and the Navy are both competing for certain types of general construction equipment on these various projects, are they not?

Commander ORT. Well, I wonder whether competing is conveying exactly the proper impression. The Army and the Navy are both engaged on construction work, and equipment is required for both activities, and to that extent—

Senator BREWSTER (interposing). You have there the accounting instructions in this connection, have you? Is that the black book you have there?

Commander ORT. Yes, sir.

Senator BREWSTER. I had a copy of that, and it didn't have anything on the rental of equipment. Have there been loose leaves inserted since?

Commander ORT. Not yet, sir; we are working on them.

Senator BREWSTER. You haven't your formulas out on that?

Commander ORT. We have the original.

Senator BREWSTER. We have a copy of that. What do you call that booklet.

Commander ORT. The Blue Book.

Senator BREWSTER. And what is the further title?

Commander ORT. "Some commentaries on cost-plus-a-fixed-fee contracts, with particular reference to United States Navy contracts under the Bureau of Yards and Docks."

Senator BREWSTER. We have that.

Commander ORT. And those instructions are still in effect.

Senator BREWSTER. Yes, sir.

Commander ORT. And rentals of contractor-owned equipment are being handled under those instructions.

Mr. FULTON. What is your position in the Progress Division of the Bureau of Yards and Docks?

Commander ORT. I am principal assistant to the head of the Progress Division.

Mr. FULTON. And as such, are you the person who deals with the rental of equipment?

Commander ORT. That is one of my duties, particularly with reference to the matter of preparing instructions for field offices.

Mr. FULTON. So that is only one of a number of duties that you have?

Commander ORT. That is correct.

Mr. FULTON. And would you tell us what your past experience has been, very briefly, particularly as related to machinery and equipment?

Commander ORT. I was connected with the flood-control work at Dayton, Ohio, prior to the first war; during the World War I was on duty at the Philadelphia Navy Yard as a naval officer; and later I was on other construction jobs in the Navy. In 1930 I resigned from the Navy to go into private business, and I was called back into the service the 1st of February of this year.

Mr. FULTON. What was the business that you conducted after you resigned?

Commander ORT. Assistant manager of a sisal plantation on the north coast of Haiti.

Mr. FULTON. Would you tell us how much equipment the Navy has rented on the various projects that it has?

Commander ORT. We have no consolidated report covering that matter.

Mr. FULTON. Has any such record ever been made?

Commander ORT. Not to my knowledge.

Mr. FULTON. Before entering into the rental of equipment, did the Navy make any survey of the equipment available in the Nation?

Commander ORT. I didn't get all of your question.

Mr. FULTON. Before entering into any rental agreements, did the Navy make a survey or attempt to make a survey to ascertain what equipment was available in the country for possible rental on these projects?

Commander ORT. That was taken into very careful consideration in the selection of contractors. Contractors, while negotiating for contracts, were required to furnish a complete list of the equipment that they had available to put on the job.

Mr. FULTON. Aside from that, was there any attempt made to make a survey of equipment?

Commander ORT. Not to my knowledge.

Mr. FULTON. Can you tell us why the Navy did not do that?

Commander ORT. That was prior to my time with the Navy.

Mr. FULTON. Well, did you determine to make any such survey after you came?

Commander ORT. No. We left the question of additional equipment to the field offices as a general policy of the Bureau of Yards and Docks to decentralize the activities of the Bureau for the purpose of speeding up construction work.

Mr. FULTON. In other words, the question of what equipment is to be rented and the terms of the rental is left to the individual project managers.

Commander ORT. Subject to the regulations established by the Bureau, particularly with reference to equipment under the fee contracts. The regulations and instructions with regard to other equipment require that competitive bids be taken before engaging equipment?

Mr. FULTON. With respect to contractor-owned equipment, has the Navy taken the position that a contractor being paid a fee on a cost-plus contract is not entitled to make a profit on his equipment?

Commander ORT. Yes, sir. That is covered by the contract and other instructions. Equipment is to be furnished at actual cost.

Mr. FULTON. And the Navy's contract is very clear and very precise on that point, is it?

Commander ORT. Yes, sir.

Mr. FULTON. And must be contrasted with the Army's contract?

Commander ORT. Well, that is not for me to say.

Mr. FULTON. Well, are you familiar with the Army's contract?

Commander ORT. In a general way.

Mr. FULTON. Is there a difference between the two?

Commander ORT. There are some differences.

Mr. FULTON. There is an express provision in the Navy contract that there is to be no profit to the contractor. Is not that correct?

Commander ORT. Yes, sir.

Mr. FULTON. So that as far as contractor-owned equipment is concerned, if that provision is enforced the equipment will be rented at cost.

Commander ORT. Yes, sir.

Mr. FULTON. Would you tell us what steps you take to enforce that provision?

Commander ORT. The contractor is required to submit an equipment rental schedule containing essential cost and age information, and he furnishes other information to form a basis for the establishment of rates.

(Senator Truman took the chair.)

Commander ORT (continuing). Now, the Navy's system or plan requires that certain information be furnished when the equipment is rented for the establishment of rates for current payments. These current rental payments are tentative, and the final cost of the equipment to the Government is determined at the end of the rental period when all of the cost figures are available.

Mr. FULTON. Can you tell us what steps are taken to make sure that it is being granted only at cost by the contractors, and who takes these steps?

Commander ORT. The officer in charge on the job administers the preparation and the checking and control of the rental schedules.

Mr. FULTON. And who checks on the officer in charge of the project?

Commander ORT. The organization of the officer in charge is entirely responsible for the checking and auditing of these equipment rental rates. At the end of the job, additional checks will be made to see that they are carefully controlled.

Mr. FULTON. And who will make those, your office?

Commander ORT. No. As I said before, the policy of the Chief of the Bureau has been to decentralize the control insofar as practicable to accelerate the progress of the work.

Mr. FULTON. So there is really no check in the central office on the individual projects.

Commander ORT. Yes; there are checks. We have officers who visit the various jobs to inspect all features of the work and for coordination between projects and the Bureau. We have also traveling accountants and auditors who go around to check the various costs and to advise the officer in charge of their findings.

Mr. FULTON. The auditors or accountants, of course, are merely checking to make sure that there are proper entries. What I was talking about was the question of whether the costs are actually the

costs, or whether they might be padded, and I wanted to know whether the Washington office made any check at all on that. If so, who does it?

Commander ORT. The checking is handled entirely in the field. The officers in the field check the schedules.

The CHAIRMAN. There is no central check here in Washington as to what the various field offices are doing with regard to the rental of equipment?

Commander ORT. No; not a comprehensive check.

LACK OF RECAPTURE CLAUSE IN NAVY RENTAL AGREEMENTS—EXCESSIVE RENTALS PAID

Mr. FULTON. Now, with respect to third-party equipment, does the Navy have a recapture clause?

Commander ORT. Not in general. On several jobs the officer in charge has used the recapture clause.

Mr. FULTON. Is that because he asked for it or because the equipment people offered it?

Commander ORT. The officer in charge introduced it for his own control.

Mr. FULTON. But the general practice of the Navy is not to have a recapture clause.

Commander ORT. No.

Mr. FULTON. Will you tell us, so far as you know, why the decision was made not to have any recapture clause, no matter how much the rent might amount to?

Commander ORT. We have in our regulations a limitation of 50 percent as a maximum payment on account of depreciation, which carefully limits the amount that can be paid on account of the loss in value from the use of the equipment.

The CHAIRMAN. But you have no limit on the amount of rental that you pay on that equipment, have you? Have you any limit on the amount of rental you can pay a man, we will say, on a shovel, for instance?

Commander ORT. Fifty percent for depreciation.

The CHAIRMAN. I notice that is depreciation, but you keep on paying him rent, don't you?

Mr. FULTON. In some cases you paid two and three hundred percent of the value of the article in rent and you still haven't got the article. Isn't that right?

Commander ORT. Not to my knowledge.

Mr. FULTON. Have you checked on that?

Commander ORT. You are speaking of third-party equipment?

Mr. FULTON. Third-party equipment.

Commander ORT. No; we have not made any control at the Bureau to the present date.

Mr. FULTON. No check at all on that?

The CHAIRMAN. We have made some checks here and some of the information that we have at this committee shows that you have made two and three hundred percent on the value of this equipment. It does seem to me that you ought to have some rule governing that.

Commander ORT. Well, undoubtedly—

The CHAIRMAN (interposing). Some central control on it. I don't see why you don't have some central control on it.

Commander ORT. Well, Mr. Chairman, that is based entirely on the general policy of decentralization, which the Chief of the Bureau has considered very essential for speed of construction.

The CHAIRMAN. That wouldn't prevent the decentralization of the control of the business on the ground, so far as that is concerned, but certainly the Navy ought to have some rule by which this equipment rental would not cost the Government these outrageous prices. That is what I am getting at; that won't require any centralization of control. It would only require just a plain rule.

Commander ORT. Well, we expect to get into those matters as rapidly as we can develop the controls.

The CHAIRMAN. It does seem to me that we have had plenty of time to get into it. We have been renting this equipment for the last 40 years.

Senator MEAD. It occurs to me, too, that a central agency would provide an experience that otherwise could not be obtained, because it would have the figures and costs of the conduct, the operation, of all these projects consolidated into one office, and the benefits attained by this coordinated agency could be passed out to all the separate projects, particularly to those that were considered laggard projects.

Commander ORT. Yes, sir.

Senator MEAD. So it occurs to me that if it is good business for the United States Steel Corporation with far-flung plants numbering hundreds all over the United States to have one coordinating agency so that they can determine the cost at this, that, and the other plant, that the Navy, run on a business-like basis, ought, long before this, to have established a coordinated central agency.

The CHAIRMAN. We have some specific instances here from the Austin Co.—a 4-yard GMC 1931 dump truck, valued at \$400, rented at \$1.70 per hour, and \$1,086 paid in rent, and the company still owns the truck. We have another, a 1939 Studebaker pick-up valued at \$350, rented without recapture clause at \$6 per day, \$715 paid in rental, and the fellow still owns the truck. There is instance after instance like that in this investigator's sheet that the investigator brought to the committee, and it seems to me that the Navy ought at least, if it requires a rule in the center of things, to get this taken care of, to do that. We thought the Army was rotten, but I will say the Navy goes them one better than that.

Senator MEAD. It occurs to me that the Navy is operating on an emergency basis in some of its aspects, as though the enemy were at the door and we didn't have time to give good business methods the proper consideration.

The CHAIRMAN. The Navy has been renting equipment for the last 40 years, building these projects, and it is supposed to be in better shape than the Army because of its experience.

Senator MEAD. We are not in a shooting war, and therefore if we could, by conserving our appropriations, get two battleships instead of one, or two steam shovels instead of one, ultimately we would make greater progress.

Senator BREWSTER. I would like to have the commander's comment on this.

Commander ORT. Well, that is a matter of policy, to determine how serious the urgency is.

Senator BREWSTER. No; I mean about the specific instances. Do you think those are probably correct?

Commander ORT. Well, I think it is very dangerous to draw any extensive conclusions on individual cases.

Senator BREWSTER. Do you have any regulations or practices in mind that would prevent episodes of this character?

Commander ORT. Well, the officers in charge of the jobs are all experienced, responsible people.

Senator BREWSTER. What do you think yourself about accepting those instances as correct, as I assume they were secured from your records?

Mr. FULTON. No, Senator; they were secured from the contractors, who naturally would not exaggerate their rentals.

Senator BREWSTER. Assuming that the instances are correct, I would like to know your opinion whether that is good practice or whether it does indicate serious failure to protect the Government's interest.

Commander ORT. I think all of those things require the most careful attention and that they should all be given the utmost possible supervision.

Senator BREWSTER. Is a thing of that sort something that would fall within your supervision?

Commander ORT. The general supervision of such things at the present time is being handled by the traveling representatives, officers and civilians, who are going around to the jobs for the purpose of coordinating the work and speeding it up.

Senator BREWSTER. I am considerably embarrassed here by my colleagues, because I am a member of the Committee on Naval Affairs, and I have been kind of bragging about the Navy. They have been showing up the Army here, and now they come around and say that you haven't been doing as well as the Army. I would really like as constructive a contribution as you could make on this situation.

They have had recapture clauses in the Army, apparently. Apparently you have not. When you pay two or three times the value of a truck in rental, it invites explanation, and I think someone ought to say something about it in justice to the Navy.

Commander ORT. Well, of course all equipment from third parties is engaged only after competitive bids. Situations arise of course where limited equipment is available and it must be had immediately, and the initial rates probably shouldn't be carried all the way through. A piece of equipment, rented for a short time, would carry for a long period a higher rate than would be warranted.

Senator BREWSTER. You operate under Admiral Moreell?

Commander ORT. Yes, sir.

Senator BREWSTER. Bureau of Yards and Docks?

Commander ORT. Yes, sir.

Senator BREWSTER. I wish that you would take these particular cases and any others that are brought to your attention and give us a little more detailed study as to whether this is characteristic or whether it can be prevented.

Commander ORT. Yes, sir; I certainly will.

Senator BREWSTER. You had better buy a tractor rather than pay three times its value for rental.

Commander ORT. We certainly will.

Senator BREWSTER. Of course, I think you ought to discover this yourself.

The CHAIRMAN. I think the Navy should have discovered this before we dug it up.

Senator BREWSTER. I quite agree. I think that the Navy ought to know more about this than we do. It is, after all, your business. If this sort of thing is going on, it leads to undermining confidence because it leads us to wonder how many other things, if this is in this instance as the other members of the committee seem to think, are unbusinesslike procedures. I am still standing up for the Navy, but I think you have got to show your case.

Commander ORT. I agree with you, sir, and we certainly will look into each of those cases, but each one has its own story as to what the surrounding conditions were. Overpayment is not to be tolerated, certainly, and it is not our policy to permit overpayments.

Mr. FULTON. Commander, are you familiar with the associated general contractors' schedule of ownership expense?

Commander ORT. Yes, sir; in a general way.

Mr. FULTON. And, of course, in order to work out this question of cost of contractor-owned equipment, you have had to be familiar with the cost of maintaining equipment. Is not that correct?

Commander ORT. In a general way—the general principles.

Mr. FULTON. Well, by deducting the cost of ownership from the rentals, it is quite obvious to the Navy how much the profits to these contractors on third-party equipment must be, is it not?

Commander ORT. Yes; an analysis would certainly indicate what the profits would be.

Mr. FULTON. For example, here many, many of these rates—instance after instance—are not only far in excess of the associated contractors' schedule rates, but they are far in excess of the rates that the equipment distributors ask in their schedule, both of which exceeded the Army's estimate of the cost of ownership.

For example, here is a \$1,200 1936 Diesel tractor renting for \$2 an hour, and if used on a 200-hour basis, as many of these things were, they would be getting \$400 a month for a \$1,200 article.

Commander ORT. A \$1,200 article?

Mr. FULTON. A \$1,200 article.

Commander ORT. A \$1,200 article. I wonder if that is full information. Is that the estimated present value or the original value new?

Mr. FULTON. That is the estimated present value as estimated by the contractor himself, presumably not too low.

Commander ORT. Merely to guard against undue assumptions, the cost new might have been \$50,000, and the figure of \$1,200 can be carelessly assumed to be—

The CHAIRMAN (interposing). It is the contractor's own value on the machine, and I don't think he would value it too low.

Commander ORT. If it has only 1 year of life left, then the value would be low, naturally.

Mr. FULTON. Then, take a 1931 dump truck, a 4-yard dump truck, the one Senator Truman referred to, valued by the contractor at \$400, and you are renting it for \$1.70 an hour. You have paid \$1,086 in rent, according to the contract. How could that be justified?

Commander ORT. I would have to get complete information to answer the question comprehensively and intelligently, and we propose to get that information for you.

Mr. FULTON. Here is another one: You are renting a centrifugal pump, valued at \$90, for \$10 a week. It doesn't take very long to pay for it at that rate. Are you familiar with centrifugal pumps, 1½-inch, and the rates that are prescribed generally for them?

Commander ORT. I am familiar with 1½-inch centrifugal pumps. There are many things that enter into the value of a 1½-inch centrifugal pump.

Mr. FULTON. You have some rates here that are almost double the Equipment Distributors' schedule or rates which, it was testified by the Army, were 40 percent above the ownership expense.

Commander ORT. Well, if you will just let us run down the facts and present them.

The CHAIRMAN. Commander, I think if you will begin running these down, you will find they are not isolated cases. I think you will find case after case, and the probability is that you will find that it is the policy. If you follow this thing to its logical conclusion, you could save the Government a lot of money.

Commander ORT. I certainly want to do that.

Mr. FULTON. Do you know of any reason why you should be paying half again the amount of the Equipment Distributor's schedule rates, or did you know that was being done?

Commander ORT. As I have indicated previously, Mr. Fulton, I have not been out on the jobs to analyze individual costs.

Mr. FULTON. Well, who has?

Commander ORT. The officers in the field, and the traveling representatives of the Bureau.

Mr. FULTON. And, as you stated before, those traveling representatives do only accounting; they do not pass on the—

Commander ORT (interposing). I mentioned officers also.

Mr. FULTON. Well, what traveling officers do this checking, and what is their experience in equipment rentals?

Commander ORT. They are officers such as have been in the service—they are high-ranking officers. They, of course, don't go into the details of accounting, but they are checking over administrative methods and general progress of the work, and particularly attempting to speed up the work.

Mr. FULTON. Speed up the work irrespective of the rental of equipment, or are they checking on the question of whether the rents are fair rents?

Commander ORT. In a general way they look over those features.

Mr. FULTON. These are cases where the things were rented on one project. Does the Navy have any means of checking at all to determine whether they were rented on a prior project and whether, when this one is done, they will go to still a third project, on each of which they might make rentals equal to or greater than the value of the equipment?

Commander ORT. I suppose that is a matter of general information which the officers in charge at the site might know about.

Mr. FULTON. If they happen to know where it came from, it would be a matter of information, but there is no method set up to ascertain that information?

Commander ORT. No.

Mr. FULTON. In several instances, we have been trying to ascertain that, and we find that there is at least some practice of taking equipment from one project to another, with the expectation that it will go to still a third, and if that is so, the rentals could easily amount to at least three or four times the value of the equipment.

Commander ORT. I think the basic rates should be carefully controlled to see that they are reasonable in all cases and that each job pays only the amount that is proper for the use of that equipment.

Mr. FULTON. In fairness to you, Commander, you haven't been given a very large organization to handle this matter, have you?

Commander ORT. We are developing a completely new organization.

Mr. FULTON. Now.

Commander ORT. No; the Progress Division is a new Division of the Bureau of Yards and Docks, and we have many activities—

Mr. FULTON (interposing). Of which this is only one.

Commander ORT. In connection with the execution of the fee contracts. For example, here is a new form of progress report which we have just gotten out and into operation, and it shows the status of every Public Works project in the entire Naval Establishment, from Unalaska to British Guiana, from Newfoundland to the Canal Zone, and to Cavite in the Philippines, as of 5 days ago.

Mr. FULTON. That is something in the nature of the progress reports that the Army gets out weekly, isn't it?

Commander ORT. I am not familiar with their reports. We have every item, the anticipated date of usability, and a great deal of other helpful information and the report is now being distributed to all Government offices concerned—project managers and so forth—to establish better coordination among the various offices, bureaus, and project managers, to furnish them the latest, most complete information.

Mr. FULTON. Preparing that general information and other similar information hasn't much to do with equipment rental. That is a major part of your work, and equipment rental is a minor part, is it not?

Commander ORT. I wouldn't say so. It is one of the various features that we have—insurance in connection with the construction program, the auditing and control and establishment of uniform accounting methods, the collection and distribution of progress information.

Mr. FULTON. I mean you have these other very large duties in addition to equipment renting.

Commander ORT. Those are all activities centralized in our office, also the direction and control of the traveling representatives on construction methods and for speeding up the progress of the work.

Mr. FULTON. With all those other duties that your office has to take, do you have the facilities and staff that would be necessary for you to examine these questions and ascertain whether these rentals are far in excess of scheduled rates?

Commander ORT. We are attempting to build up an organization, but our office space is extremely limited. We can't possibly take any more employees into the office. I have been looking for equipment experts for some little time, to send around to the jobs to assist on rental schedules for contractor-owned equipment.

Mr. FULTON. And is it by reason of that lack of staff that the Navy has not kept track of the total amount of equipment that it has rented, or the rates, and kept a centralized check on these matters?

Commander ORT. Well, I am not sure that we haven't kept—

Mr. FULTON (interposing). For example, did anybody in your office look over the rates of these individual projects?

Commander ORT. I think that question has been covered a number of times, Mr. Fulton, and I have explained that we have not brought all of that control into the central office.

Mr. FULTON. Well, has anybody looked over these individual offices to find out which constructing heads were not doing their job by permitting rentals that were excessive? The Army did, for example. Has anyone done that?

Commander ORT. Our traveling representatives—the officers that I speak of.

Mr. FULTON. Who among them are at fault for not finding these cases?

Commander ORT. Well, I don't think that anybody is at fault for—

The CHAIRMAN (interposing). In other words, it just hasn't occurred to the Navy that there is anything wrong with it, I imagine. That is what the difficulty is.

Mr. O'DUNNE.¹ Mr. Chairman, may I say that this witness did not know that he was going to testify until yesterday. Am I right?

Commander ORT. Yes.

Mr. O'DUNNE. He has been in the Navy Department and was called back to the Navy Department recently as a very specialized—

The CHAIRMAN (interposing). We don't want to do him any injustice at all. As the case appears to me, the Navy didn't know anything about this and made no effort to find it out. We are just calling it to their attention very emphatically.

Mr. O'DUNNE. I understand. The questions have been on administrative policy and check and cross-check systems of accounting with which he is not familiar. I am perfectly sure that there is a logical explanation. These are isolated cases.

The CHAIRMAN. I hope that is so, and if there is an explanation, we want it.

Mr. O'DUNNE. I would like the privilege of bringing Admiral Moreell, who is familiar with the whole policy and who will give you a much broader picture.

Mr. FULTON. Mr. O'Dunne, did Admiral Moreell check these, or is this man subordinate to Admiral Moreell who will check these?

Mr. O'DUNNE. That I don't know. I am perfectly willing to find that out, Mr. Fulton.

Mr. FULTON. If the head of the equipment unit wouldn't know about it, how would the head of the Bureau of Yards and Docks know about it?

¹ Eugene O'Dunne, special assistant to the Under Secretary of the Navy.

Mr. O'DUNNE. That is a question which I don't readily see the answer to, but I am sure there is some answer and I am sure it is not a hit-and-miss system as the record now appears that it is.

The CHAIRMAN. We will give you a chance to get it.

Mr. O'DUNNE. Thank you, Senator.

The CHAIRMAN. Senator Mead, did you have any questions?

Senator MEAD. I was interested in the cost of the various machines, including trucks, but no mention was made of who pays for the upkeep, furnishes the gas and the oil and the tires, and pays for the garage rental, the cost of moving these machines from one city or project to another. Do you know anything about who takes care of that cost? For instance, Commander, if you pay \$2 an hour for an automobile or a truck, and the truck, we will say, cost about a thousand dollars, in 500 hours you would have the cost of that truck met, but we would have to know who paid all these charges to determine whether or not the \$2 an hour was a good bargain.

Commander ORT. Yes, sir.

Senator MEAD. Is the truck rented and then all the upkeep furnished by the Navy, or is the truck rented with the idea that the owner will keep that truck in going condition?

Commander ORT. Well, there are several classifications of rental. The equipment that is rented from the contractor at actual cost is maintained while on the job as a part of the job. Equipment from third parties depends on the terms of the rental agreement.

Senator MEAD. In compiling the information, it would be well, I presume, to indicate just who takes care of those charges, because it would be much easier for the committee to determine whether or not the bargain were a reasonable one if it knew who was paying, say, the transportation. Take, for instance, a truck that has already been paid for—

Commander ORT (interposing). Yes, sir.

Senator MEAD. And that has already been used on another project some distance removed from where it is now being used, will the Navy pay, after already paying double the price of the truck, for the transportation of that truck and then begin to pay for the truck all over again, or is the transportation left to the owner of the rented equipment?

Commander ORT. Presumably, in the case of third-party equipment, the transportation charges from one job to another would be for the account of the owner.

Senator MEAD. That is something that should be furnished, along with the rest of the information.

Commander ORT. Yes, sir.

Senator MEAD. Commander, do you know anything about the naval bases that are now under construction in the North Atlantic, outside of the continental United States?

Commander ORT. In a general way; yes, sir.

Senator MEAD. Where are they located?

Commander ORT. One at Bermuda and one at Argentina, Newfoundland.

Senator MEAD. Newfoundland?

Commander ORT. Yes.

Senator MEAD. Any more?

Commander ORT. Well, I know of the Iceland situation in a general way. Further than that, I have no information.

Senator MEAD. What about Greenland?

Commander ORT. I have no information.

Senator MEAD. Or Labrador?

Commander ORT. I have no information on those; sir.

Senator MEAD. Have you any information as to the construction of new bases in the western Pacific?

Commander ORT. Those that are authorized for Pearl Harbor, Wake Island, Johnston Island, Guam, Samoa, and the Philippines. Further than that, I have no information.

Senator MEAD. Those are all under construction now?

Commander ORT. Yes, sir.

Senator MEAD. Is there any construction at Wake Island?

Commander ORT. I think so; sir.

Senator MEAD. And there is no construction beyond the Philippines?

Commander ORT. Not to my knowledge.

Senator MEAD. Not under the lend-lease?

Commander ORT. Not to my knowledge.

Senator MEAD. And in the South Atlantic, Commander, you mentioned something about projects at Guiana, was it?

Commander ORT. British Guiana?

Senator MEAD. British Guiana.

Commander ORT. The bases on British areas include Trinidad, St. Lucia, Antigua, and Jamaica.

Senator MEAD. And British Guiana?

Commander ORT. And British Guiana.

Senator MEAD. Are there any others in the South Atlantic?

Commander ORT. Those on American territory in Puerto Rico, Virgin Islands, Guantanamo, and Canal Zone.

Senator MEAD. Those are all going projects?

Commander ORT. Yes, sir; under construction.

Senator MEAD. As an over-all proposition, Commander, I think the Navy is setting a very good example, from the standpoint of the progress as it applies to the fleet, turning out ships. I just read in this morning's paper an article indicating that 34 ships were launched last month.

Commander ORT. Yes, sir.

Senator MEAD. Every one of them was launched a week or several months ahead of schedule.

Commander ORT. Yes, sir.

Senator MEAD. From that standpoint, I think you are doing a very good job, but perhaps the lack of space, lack of personnel, the rush for completion of projects, have contributed to the lack of an economical administration that the committee is prying into.

Commander ORT. Well, as I stated before, the general policy of the Bureau has been to speed up the progress of the work. That was the first fundamental. And to accomplish that, the Chief has decided on decentralization and is still striving to bring about additional decentralization for the purpose of speeding up the work.

Senator MEAD. When you say the "Chief," who do you mean?

Commander ORT. The Chief of the Bureau, Admiral Moreell.

Senator MEAD. Oh, Admiral Moreell. Well, they are doing a very good job, very rapidly, but I presume the business methods could be considerably improved.

I have no further questions.

The CHAIRMAN. The committee will recess until 10:30 tomorrow, when we will take up the Bantam car contracts.

(Whereupon at 11:40 a. m., the committee recessed until 10:30 a. m., Wednesday, August 6, 1941.)¹

¹Hearings held on August 6, 7, 12, and 13 appear in Hearings, Part 7.

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

TUESDAY, AUGUST 19, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM,
Los Angeles, Calif.

The committee met at 2:30 p. m., pursuant to adjournment on Wednesday, August 13, 1941, at Washington, in room 1611, United States Courthouse, Senator James M. Mead presiding.

Present: Senator James M. Mead.

Present also: Hugh A. Fulton, chief counsel; Charles P. Clark, associate chief counsel.

Senator MEAD. Before you start, one of the rules of the committee is to swear the witness. Will you stand up? This is a record that we are making for not only the committee but for the entire Senate and for everybody who wants to read the record thereafter, the departments of Government, and so on.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. OLSON. I do.

The supervisor here can go ahead of me, if you are in a hurry.

Senator MEAD. The committee will please be in order. We only have a short time; we will give everybody a part of it. We don't want anybody to try to take the other fellow's time. It may be that we are going outside of our jurisdiction in some cases, but we want to be as generous as we can, hear as much as we can. We are going to ask each witness to be as brief as possible.

**TESTIMONY OF VINCENT HARRIS OLSON, CHAIRMAN OF BOARD,
PORT HUENEME SHIPBUILDING CORPORATION OF OXNARD HAR-
BOR, CALIF.**

**LACK OF COOPERATION FROM GOVERNMENT AGENCIES IN PROPOSED CALIFORNIA
SHIPYARD**

Mr. OLSON. We would like to know why we can't secure the cooperation of the Defense Plant Corporation and the Maritime Commission and the United States Navy, Interior Department, and any other Government agencies interested in building ships for the protection of America, as well as for merchant-marine service after the World War.

I have contacted every defense agency, and I find after spending many thousands of dollars at Washington and several different trips that I am no nearer securing the answer than I was when

I started, except I know a little bit more about the routine in Washington.

I visited about 35 Congressmen, about 15 Senators on this matter. They all agree that the United States needs additional shipyards but they don't know the procedure to go about it.

I visited Mr. Snyder, chairman of the Board of Defense Plant Corporation, while in Washington, and I also visited Captain Vickery of the Maritime Commission, and Admiral M. S. Robinson, of the Navy Department, and tried to secure information from them and direct orders so we could build the yard at Port Hueneme.

We are advocating securing a \$10,000,000 appropriation under the lease-lend bill and also through the Defense Plant Corporation, to build these buildings and lease them to us as we have an overabundance of skilled labor, ship labor, here on the Pacific coast, and an overabundance of manpower, and we have all the political groups, the civic groups, the farm groups, and the citrus industry, and everybody concerned in the territory, as well as the chamber of commerce, back of us.

We feel we should have some means whereby we could secure from the Maritime Commission a certificate of certification of the need of this plant out here as a defense arm of the industry, and also because it will produce a tax revenue in an area that is now dormant. The people up there have spent several million dollars in producing this harbor. We have all the tracks in; we have the docks in, and we have the warehouses, and the people in the territory are willing to go ahead, but——

Senator MEAD (interposing). Locate this harbor for us.

Mr. OLSON. It is at Oxnard Harbor, about 45 miles north of Los Angeles and about 40 miles south of Santa Barbara, on the Pacific coast. The Port Hueneme is named the Oxnard Harbor District, and it was created about 1939, and the United States maritime new school is there now, and it will be dedicated on the 30th of this month.

Senator MEAD. United States maritime school?

Mr. OLSON. Yes; also the United States Coast Guard school for training officers. In fact, it is facing our site. With all these potentialities and the possibilities of producing a wonderful American community, increasing its liabilities to the Government's benefit, we cannot understand why we cannot secure this shipyard.

Senator MEAD. Do any business in the harbor now?

Mr. OLSON. No; except the regular, small-time freight lines coming in there. But the railroad people, the Southern Pacific, are back of us; Senator Downey, and Elliott and Sheppard, and all the political group up there, and the truck-forwarding people.

We also have interested an eastern steamship line to come in there and operate a steamship line.

Senator MEAD. Did they suggest any weaknesses in the location or character or type of a harbor?

Mr. OLSON. No; the last letter we have had from the Maritime Commission was they doubted that anybody in the United States could secure sufficient skilled labor to build ships.

Senator MEAD. Was there any other reason why they wouldn't approve your request?

Mr. OLSON. No other reason except I understand before we came into the picture there was something done that was harmful to the project 3 or 4 years ago, with Secretary Ickes, and that somehow or other has put a black eye——

Senator MEAD (interposing.) What was that?

Mr. OLSON. I don't know what it was. It seemed to be interference, somebody using some sort of a bribe to secure the benefits for that harbor, but that was before we had anything to do with it, and we have not attempted to approach anybody, or I haven't attempted to approach anybody, or any of my organization, with any sort of thing except on a legitimate basis.

Senator MEAD. Other than a paper organization, what have you got?

Mr. OLSON. We have the promises of 3½ million dollars from eastern bankers and about the same, a like amount of money from the local bankers, providing we could produce evidence of a ship-building contract from the Government, and we have also assurance from the petroleum industry that they would give us a contract for approximately 50 tankers, with the Government's approval, to build oil tankers, and we have no fear that we could secure overnight at least a one-million-dollar-bond issue to guarantee the performance of the operation.

Senator MEAD. What about R. F. C. money?

Mr. OLSON. We cannot secure that and no other private ship-building corporation can secure that, but due to the fact the Maritime Commission's short-sighted policy prohibits any private enterprise from advancing the theory of securing money through the Defense Plant Corporation, the Defense Plant Corporation will not give a certificate of necessity unless they have the approval from the Maritime Commission or the Navy Department, for the project.

The authority in charge—and we have to depend upon their ideas as to whether we can secure the certificate or not—have the idea at the present time that the shipyards have been expanded as far as possible for the basic materials and the skilled labor available in the United States. We dispute that argument. We claim there is an overabundance of basic materials and used tools and labor and that there should be an additional 100 shipyards constructed in the United States, as at the present time there are less than 60 shipyards. In the last World War there were 270. There are, to my knowledge, about 20 other independent concerns, like myself, that have been forced to discontinue any ideas of advancing new shipyards in the United States, because of this condition.

Senator MEAD. I realize that you have probably exhausted every means open to you in Washington, that you have taken the matter up with every agency with the possible exception of this committee.

It occurs to me that we might offer some assistance to you in the form of an intermediary that might present your plan to the proper authority, but I would like to have the advice of counsel before I go into that too deeply.

What do you think about it?

Mr. FULTON. I think we might be able to do that, but I would suggest that Mr. Olson forward to us in Washington a detailed story of

the efforts that have been taken up and a description of the quantity of labor available, methods of financing he has in mind, and I will then have investigators go to the Maritime Commission and consider it further. That is about all we can do.

Mr. OLSON. May I make a suggestion, please, to the board. I suggest that I have been all through that procedure and I appreciate your courtesy and offer to go to the Maritime Commission, but I think the only way that the private shipyards and the private enterprises are going to get any place in this particular emergency is for the Government to appropriate a bill, entirely new bill, of \$10,000,000,000, with the idea of constructing 30,000,000 additional tons.

Under the present set-up they have appropriated about three and one-half billion dollars for about 1,200 ships. This is not adequate. The type of ships they are building will be absolutely obsolete in 5 years. They are only building 10- to 12-knot ships, and they need 17- to 23-knot ships. They will be of no use. If the war should end tomorrow, I would like to ask the Government what are they going to do with the box-like ugly ducklings?

Senator MEAD. Of course, we couldn't consider a bill. That is beyond the province of this committee. But we could demand an explanation from the Maritime Commission or from the Navy or any other shipbuilding agency, as to the reason why they have rejected your offer.

Under present legislation, it occurs to me that one or the other of the agencies could utilize your facilities, if they wished to, if there are facilities. But if there are no facilities then, of course, it comes in another category, and it would require legislation such as you suggest. That ought to be introduced by, perhaps, the Representative in the Congress from the district, or someone on the Committee on Merchant Marine, or by one of the two Senators from this State. But our committee has no authority to consider and recommend legislation. It is not a regular legislative committee. It is merely an investigating committee to determine what is wrong with the defense program.

I think the suggestion of the counsel is a very good one. If you would, at the request of our committee, which I make of you now, send us a statement giving us, in order, the steps that you have taken, the location of your proposed facility, and all of the resources and facilities you have at your command or you may command, if you secure a contract, we then can take that to the Maritime Commission or have them come before our committee, or have O. P. M. and the rest of these interested agencies come with them and tell us just why they are not using this facility and these resources.

I would suggest, in addition to what you have in the record, we will put that statement, also, in the record. You send us the statement setting forth your claim.

Mr. OLSON. That is very good of you, Senator. May I suggest something else?

Senator MEAD. Yes.

Mr. OLSON. Their bugaboo, as far as we have been concerned, and other private enterprises, shipbuilding organizations, has been that they have awarded all these contracts under the appropriations which they have, and our contention is that, although they have awarded,

they have bottlenecked industry because the people they have awarded contracts cannot produce. In other words, if they give Harry Kaiser 301 ships and he hasn't produced two, our theory is they should take away 100 ships from him and divert it to us.

Senator MEAD. I think they would have authority to withdraw or recall contracts that haven't been started and revise the distribution of those contracts.

I understand there is a plant here in Los Angeles where they now have 12 or 14 ways. They are only using 6 or 8 of them. On account of a steel shortage, they are unable to lay down any further ships, and yet the Maritime Commission is asking them to build more ways, when they are unable to use 50 percent of the ways they now have, on account of the steel shortage. So that we know that. Now, we have learned your predicament. If you would send us a complete statement, it will go in the record following your testimony, and it will be taken up by us with the various agencies of the Government, for you.

I would also ask you to send a copy of it to your Representative and to your Senator or Senators.

Mr. OLSON. Yes; we will attend to that right away.

Senator MEAD. We will talk to them also.

Mr. OLSON. Thank you very much for your courtesy.

Senator MEAD. Thank you.

Mr. CLARK. This is Mr. Gordon L. McDonough, member of the Board of Supervisors, who seeks the committee's assistance regarding a highway here. He has his associates with him.

Senator MEAD. In keeping with our procedure, we swear in all the witnesses. This is a record that we are making for the full committee, for the Senate, for the agencies of the Government, for their guidance and instruction.

Do you solemnly swear to tell the truth and nothing but the truth, so help you God?

Mr. McDONOUGH. I do.

TESTIMONY OF GORDON L. McDONOUGH, MEMBER, BOARD OF SUPERVISORS, SECOND DISTRICT, COUNTY OF LOS ANGELES, LOS ANGELES, CALIF.

PROPOSED CONSTRUCTION OF LOS ANGELES RIVER FREEWAY

Mr. McDONOUGH. Senator Mead, this is a project which has been under consideration for some time. Its purpose is to build a highway on the banks of the Los Angeles River from the Sepulveda Boulevard intersection in San Fernando Valley to the Los Angeles-Long Beach Harbor area.

The Los Angeles River has been built as a flood-control channel through the country by the United States Army engineers, with the assistance of the Federal Government in appropriating funds for flood-control purposes in this county. In purchasing the right-of-way for the Los Angeles River and in designing the channel, the United States Army engineers anticipated a maximum flood which, in their opinion, the channel should carry, approximately 100,000 second-feet of water. That is a tremendous amount of water to fall

in Southern California at any one time, but it is nevertheless designed to meet the requirements of the congressional bill which made the appropriation, and that was that the money spent by the Federal Government should be spent with the understanding that each dollar spent would compensate to the assessed valuation of the county by the protection of lands that would be inundated if the river wasn't built. The river is constructed and is in operation practically from Sepulveda Boulevard to a point about Soto Street, in the county here.

The banks of the river are designed so that in many places along the river right-of-way a highway could be put on the top of the levee or on the adjacent side, land side of the levee. The program between the county and the Federal Government was that we, Los Angeles County, should purchase the right-of-way; the Federal Government would pay for the construction of it. So the right-of-way is practically all purchased and in title in the hands of the county of Los Angeles in the form of a flood-control right-of-way.

The regional planning commission of the county (Mr. Adams is now the acting director, and Mr. Ruchti, assistant) were ordered by the board of supervisors to make a study of the feasibility of a freeway, that is, traffic on one bank going north and traffic on the other bank going south from Sepulveda Boulevard to Los Angeles-Long Beach Harbor, a distance of about 40 miles, to facilitate the movement of commercial traffic and munitions and things necessary in war effort in this territory, believing that this could be built much quicker than any other freeway, on account of the fact that we own most of the right-of-way. The severance and demolition, and the severance of streets along the river have all been determined by the courts as being necessary to the general welfare of the people here, as compared to a freeway of any other character that would have to be so determined by the courts before right-of-way could be purchased.

This project is known in Washington to Dr. Hughes, the road commissioner, known to the Senators from this State, the Congressman from this county, to Mr. Carmody.

It has been under this study, as I said, by the regional planning Commission. A preliminary report is here, which I would like to file with the committee for their consideration.¹ For a brief description of the proximity to the defense industries, I would like Mr. Adams to show you a map showing the need of it. It is my desire, if, as and when the Federal Government finds it essential, to provide the right-of-way to the Federal Government for this freeway, with the hope that they will endorse it and provide some of the finances for its construction.

It lies in the very center of the county's population and industrial section, as this map shows, these dots indicating thousands of people. So, going down through three large metropolitan areas, the Glendale area, Los Angeles City area, the Long Beach Harbor area, the highway practically acts as a backbone for the transmission of commercial traffic from San Joaquin to San Francisco and the valley in the north here through to the harbor, and vice versa.

¹ Subsequently entered as Exhibit No. 101 and appears in appendix on p. 1938.

This river is now submerged below the surface; naturally it would be, being a river bed. But the highway that we figure on, would be submerged, also, in its construction, so that it would be added protection for freeway purposes and for military purposes.

Its proximity to the industrial and defense industries is shown on this map. Mr. Adams could probably describe this better than I can.

Mr. ADAMS.¹ The red lines on this map indicate the location of the proposed freeway, one roadway on each side of the existing flood-control channel.

These brown spots here, with the names on them, indicate the manufacturing and industrial facilities, aircraft and other facilities. This first one, to the north, is the Lockheed-Vega aircraft factories and Menasco and Kinner airplane motors plants. Then Seventh and Santa Fe, the Lockheed aircraft assembling plant, certain portions of the aircraft. That is near the business district of Los Angeles. The central manufacturing district is in this area.

Mr. McDONOUGH. There, by the way of description is the area which comprehends the numerous service districts to the metropolitan area. In that you find food products, semi-assembled—well, the Chrysler plant is in about there, and there is a number of tire and manufacturing plants.

Here is the approximate location of the Vultee plant [indicating] which is served by a highway connected with the freeway. Over here is the oil refinery [indicating] of the county, practically in the vicinity of Signal Hill.

Here is the Western Basin shipbuilding territory, and the Federal Government has already appropriated money to connect with the Wilmington area here into this river area. In other words, going down here, you could shoot off in that direction to Wilmington, the yellow one, that goes to Los Angeles Harbor. This continues down the river bed to Long Beach Harbor.

This is the new Douglas plant on which the Federal Government is financing the construction. Here is your Terminal Island shipbuilding plant.

Senator MEAD. This is the extent of the project?

Mr. McDONOUGH. It starts about here.

Mr. ADAMS. Sepulveda Boulevard is the westerly terminus.

Senator MEAD. How long did you say?

Mr. ADAMS. Approximately 40 miles.

Senator MEAD. It is a flood-control project?

Mr. McDONOUGH. That is right. We plan on putting the road on the top of the levee and on the land side adjacent to the levee, not in the channel, because the flood-control engineers have decided that the hydraulics wouldn't stand for any impediment of the flow.

Senator MEAD. Therefore you have the two roads, one on each side?

Mr. McDONOUGH. That is correct, and a freeway which is not intersected by any surface street. It is all bridged; it is already bridged.

Senator MEAD. The roads will go under the bridges?

¹ Arthur H. Adams, acting director, Regional Planning Commission, county of Los Angeles.

Mr. McDONOUGH. That is the point exactly. These streets cut off by severance and easement have been settled by court action, so there is no difficulty.

Senator MEAD. It is in that stage of progress. You have the plans and the specifications. You have taken it up with the Government agencies, and final action hasn't been taken, but all the preliminaries are available?

Mr. McDONOUGH. That is correct.

Senator MEAD. Plans, specifications, and so on?

Mr. McDONOUGH. That is right. Colonel Kelton, who is the resident Army engineer, was very cautious not to impede the flow of the river in the channel. This report which the regional planning commission has made, of which I will leave a copy with you, has determined that the feasibility of the highway is on top of the levee and the land side, which does not impede the channel. Colonel Kelton has sent me a letter of endorsement, endorsing the program as outlined by the regional planning commission.

What we hope to do is to interest the Federal Government in this project to the point of the county taking the responsibility for the purchase of the right-of-way, and seeking aid from the Federal Government for the construction of the project itself, from the point of view of military necessity, as well as the commercial asset that it would be in the transmission of raw materials from the north, and agricultural products in the San Joaquin and the northern part of California to Los Angeles Harbor and back. It is vitally needed insofar as the surface traffic is concerned. We are congested here with heavy trucks on the highway, and we have no freeway through the center of the city at the present time.

Senator MEAD. It is being handled by the board of supervisors rather than by the municipality?

Mr. McDONOUGH. Oh, yes; it is strictly the county of Los Angeles handling it. By virtue of the fact that we have acquired this right of way, it removes any speculation on the purchase of right of way, except what we may need to augment the existing highway or the highway along the banks.

We have spent \$1,191,000 in the purchase of easements and right of way for what we now have constructed. If we need any additional right of way, it is going to be taken on a condemnation proceeding. Of course, from a speculative point of view on the sale of land, there is no interest to speak of. I don't think there is anything of that nature in the picture. I have been fathering this thing along myself, and if there was anyone selling land they probably would have been trying to contact me, but they haven't because they know we own the right of way.

We want to further remove the responsibility of having to finance this out of our local gasoline-tax money because we probably could not build the highway for, I would say, a period of 10 to 15 years if we had to do it out of our own funds.

We do believe that, because of its proximity to the aircraft and other manufacturing industries, the fact that it connects the harbor with the valley and is actually the backbone of the county through which the industrial and other centers passes, it is of military value.

Senator MEAD. How much do you figure the project is finally costing the Government?

Mr. McDONOUGH. Well, that would depend entirely on what type of construction was put on the levee. The average cost of freeway construction runs \$1,000,000 a mile, as I get the figures. If that were true, we could discount, to begin with, \$1,191,000 for cost of right-of-way because that is already spent.

I know, from my familiarity with the location of the river, that it is easily workable. It is not in a territory where you have to do a lot of dredging or blasting. It could be built, I would say, easier in its location than it could in any other similar location throughout the county because there are no buildings in the way to move, to speak of; there are no utilities to move. It is merely a matter of grading and putting in a foundation, laying in a good road surface.

The regional planning commission engineers have anticipated a four-lane highway on either side of the bank, 50 feet, 12-foot lanes, which ought to serve the use of the highway for a long time to come, as far as traffic is concerned.

This report, Senator, will give you the details of the study, showing its proximity to population, its proximity to industry, the studies they have made of many angles of the cross section of the river in many places, and the existing bridge structure that is on there now. If the committee will digest that report, I am sure they will find it very interesting.

(The report referred to was marked "Exhibit No. 101" and appears in the appendix on p. 1924.)

Senator MEAD. How long do you estimate it will take to construct that highway once they get it under way?

Mr. McDONOUGH. I couldn't say. I would be guessing, for the reason I am not familiar with road construction from an engineering point of view, to be accurate about it.

Senator MEAD. Of course, it would have to be available very shortly if it was going to make a contribution to the emergency, unless that is going to last many, many years, which we hope it won't.

At any rate, we have all the information in this report, I think sufficient to guide the committee, and we will be very glad to take it up when we get back to Washington, and we hope that any of the delegation in the Congress that are interested, will talk to us about it.

Mr. McDONOUGH. I expect to be in Washington in September for the purpose of interesting those who may be following through on this.

The one point I want to leave with you, before I finish, is that there is a system of defense highways under consideration in the Los Angeles area which comprehends almost every point of vantage, from a military point of view and a commercial point of view, much of which is not now constructed.

Considering the possibility of building this as compared to building the many highways that are under consideration, I would say we could build this much quicker than many of those that are now known as strategic and access highways, under the proposed bill that was recently vetoed, the \$125,000,000 bill.

If possible, we would like to have this included in the next access highway or strategic highway bill in Washington.

Senator MEAD. Such a bill passed the Senate last week and probably will be acted upon by the House very shortly, and there will then be available some money for the elimination of bottlenecks and for strategic and defense highways. Probably this matter could be considered under the provisions of that appropriation.

However, we are very glad to have you with us and we appreciate your presentation, and we will be happy to take the matter up when we get back to Washington.

Mr. CLARK. Senator, this is Mr. George Franck and Mr. J. L. Tinning, president and vice president of Hercules Foundries. Mr. Franck wants to discuss the position, the difficult plight of small business insofar as possible, and also discuss the difficulty encountered with the Aluminum Co. of America.

Senator MEAD. Do you solemnly swear to tell the truth and nothing but the truth, so help you God?

Mr. FRANCK. Yes.

TESTIMONY OF GEORGE T. FRANCK, PRESIDENT, HERCULES FOUNDRIES, INC., LOS ANGELES, CALIF.

EFFECT OF MONOPOLY, PRIORITIES, AND LACK OF SUBCONTRACTING ON SMALL BUSINESS

Mr. FRANCK. In order to diversify our business (we find the volume of what we are now doing is growing less and less) we have attempted to diversify by being in the aluminum foundry business as well as in the gray iron foundry business as we presently are.

Senator MEAD. What do you mean by "gray iron?"

Mr. FRANCK. Well, we are presently founding exclusively gray iron. That means fittings and pipe and castings of various characters, other than steel. We have previously had experience in aluminum foundry work. In seeking some Government contracts in aluminum foundry work we have experienced that a great many of the aircraft factories are contracted with the Aluminum Corporation for their foundry work, on aluminum castings, through the year 1942 which, of course, eliminates the possibility of the person who wants to go into aluminum castings, or a person who is already in it, to get their fair share of the defense orders the airplane factories are receiving. We thought it a very unfair practice for the airplane factories to farm out the vast majority, over a period of a year and one-half, to one company.

The Aluminum Co. came into Los Angeles as foundrymen several years ago. Today they have several thousand people employed, and their attitude is that they are not yet satisfied with the volume of business they are getting, but they would like to get all of it, if they can, with the result that they are not only lining up all the business in the aircraft industry and aircraft accessory manufacturers, but they are likewise, because of the volume they are attempting to transact, taking employees away from other foundrymen.

We think that we are entitled to a portion of this business, if we can handle it, but we are fearful of going into it because of the fact that we will not be able to get the orders because they are all contracted already to the Aluminum Co.

We think it is manifestly unfair that the taxpayer who is paying for this preparedness is denied the opportunity of securing a portion of the work.

Senator MEAD. Where is your plant located?

Mr. FRANCK. Slausin and Boyle Avenue, in Vernon.

Senator MEAD. How big is it?

Mr. FRANCK. Until recently we employed 425 men, and, due to shortage of material, we had to close down one shift 3 weeks ago and laid off 147.

Senator MEAD. Where do you get your material now, your raw material?

Mr. FRANCK. All the way from Seattle, Wash., down to El Paso and over to Salt Lake. That is iron. We were getting pig iron from Provo, Utah, United States Steel Co. plant. During the first 5 months of this year we shipped in from that pig iron operation 3,000 tons of pig iron. At the end of May we were told we could get no more pig iron, and we have gotten none, regardless of the fact we have a priority on pig iron at the rate of 530 tons a month. On presentation of that priority to Mr. Ross, the president of the Columbia Steel Corporation at San Francisco, we were denied any pig iron. We have not received one carload of pig iron since the latter part of May.

Senator MEAD. What is your priority rating?

Mr. FRANCK. A-10. It is a blanket rating for the reason that our orders are numerous and varied. They very often call for very fast delivery which, in itself, would almost necessitate a blanket rating under which to function because it would be impossible to make the deliveries that are wanted and to use and to get any effect out of a priority other than a blanket priority.

Senator MEAD. Are your customers all connected with the defense program?

Mr. FRANCK. I would say 80 percent. We supply, for instance, all of the Consolidated Aircraft plant in San Diego. In other words, at one time we had 35 military projects that were drawing on our plant, all the way from Aleutian Islands out to Manila and back to Denver.

Senator MEAD. Well, one difficulty that you experience today is in getting orders from the airplane plants. If I got your testimony right, it seems they are going over your head, or going beyond you to the Aluminum Co.

Mr. FRANCK. We wish to get into the aluminum casting business, and we think we are entitled to business from the airplane—

Senator MEAD (interposing). They are giving their orders to the Aluminum Co.?

Mr. FRANCK. That is correct, and they are dating the orders ahead. They must be blanket contracts because the airplane companies are unable today to give any specific specifications on aluminum castings they are going to use in planes next year.

Senator MEAD. If they gave you the orders, could you fill them?

Mr. FRANCK. Yes; we would put up a plant and fill them.

Senator MEAD. But you would have to put up a plant?

Mr. FRANCK. Yes.

Senator MEAD. And you would have to get the aluminum from some company?

Mr. FRANCK. From the Aluminum Co. or Reynolds Metals and Bohn Aluminum.

Senator MEAD. Would they be able to give it to you?

Mr. FRANCK. I think they would have to.

Senator MEAD. Have you made any effort to find out whether or not they would have it available to you?

Mr. FRANCK. Not directly from the Aluminum Co. but we are certain they would have to have it available as long as we have Government business.

Senator MEAD. I understand that there are quite a number of so-called independent or small businessmen that just cannot get the aluminum.

Mr. FRANCK. That is because they perhaps don't have the proper ratings on their orders they want to use it for.

Senator MEAD. Here is a case where you haven't got the orders, and you are not sure whether or not you can get the material. You see, you are not sure that you can get the aluminum from the Aluminum Co. or from Reynolds Metals. You are not sure that you can go to the airplane manufacturer and get the order, and you haven't got the plant.

It occurs to me that you could get the plant all right, providing you showed that it was not going to be too difficult for you to get the orders. If you had the orders, the plant would follow as a natural sequence. Then, of course, the one remaining task would be to determine whether or not the Aluminum Co. would sell you the aluminum, or Reynolds Metals, and they are not under sizable production as yet.

Mr. FRANCK. Well, of course, the stumbling block is this, that we claim we have just as much right to be in the aluminum casting business as the Aluminum Co. or anybody else that wants to go in business to supply this defense need.

They, the Aluminum Co., have expanded their plant here tremendously, in face of the fact that there are other aluminum foundries in Los Angeles, and also taking employees away from the gray iron foundries, such as we operate. We are fully conversant with the founding of aluminum, as we have done it previously. But the point I want to develop is that, in investigating this matter, in an attempt to get into the aluminum foundry business, we have been unable to get orders, simply because of the fact that these airplane factories are contracted on orders to the end of 1942, and a good, big portion of it is with the Aluminum Co. of America.

Senator MEAD. It occurs to me that you and others in your category have been unjustly dealt with as a result of the development of a monopoly in the aluminum field by the Aluminum Co. of North America. You have been unfairly dealt with by reason of the priorities, and you probably have been unfairly dealt with by reason of the fact that large contracts have been awarded to large companies, with no thought about subcontracting.

If contracts not yet issued, or contracts already agreed upon and not yet completed could be recalled or revised, or both, and awarded to a large manufacturer, who would not only agree to price but

would agree to subcontract a very large percentage of the contract, minimum of 25, perhaps maximum of 50, then they would be looking for subcontracts like you are, in order to add to their list of subcontractors to meet the requirements. So that it occurs to me the Government ought to insist upon a certain minimum amount of subcontracting on all existing contracts not already started, and on all future contracts that are not yet let.

Mr. FRANCK. That should be done, and the subcontract should be let to concerns in which the parent company has not interest or—

Senator MEAD (interposing). Oh, yes.

Mr. FRANCK. Where the personnel connected therewith has no interest.

Senator MEAD. Like the United States Steel or Bethlehem Steel. They subcontract to their own subsidiaries. That isn't spreading the work at all, to any great extent. They ought to be called upon to sublet to independent contractors outside of their own set-up. But that seems to me to be your problem, and it is a problem that we as a committee should be interested in, namely, the diffusion, the spread of this national-defense program—

Mr. FRANCK (interposing). That is correct, Senator.

Senator MEAD. By not only directives ordering it to be done, by the Army and Navy, but by new contracts that would require that a certain amount of it be sublet, and by awarding the contract to the contractor who would guarantee to sublet the greatest percentage of the contract. That would stop that expansion, eliminate the necessity of new machinery, and it would leave our peacetime industrial plant ready to return to work when peacetime production is in demand again.

Mr. FRANCK. That is exactly what we requested of the aircraft company—that is, would they provide us with some orders on which we could then get Government priorities on equipment that would be necessary. We can't get to first base. It is tied up in a pretty tight, little bundle, and it is not being dispersed.

Senator MEAD. I believe a determined effort will be made. I can see a growing disposition on the part of the Congress and on the part of the agencies of the Government to become vitally concerned with the coming of Reynolds and other aluminum-producing companies in the field. I believe if you persist that the opportunity for participation in the defense program will come to you.

Mr. FRANCK. But one factor that the Government should keep in mind, in dishing out the billions of dollars of business they have to the airplane companies the past few years, turning over to them almost carte blanche the purchasing of the items that go into their manufacture, is, perhaps, a step that should be taken into consideration. We do not see why they should have the sole right to dispense that business the way they see fit, without regard to the national emergency.

Senator MEAD. We appreciate your testimony.

Mr. CLARK. Senator Mead, this is Mr. Kelley. He represents a group of citizens out at Pasadena and Altadena protesting against removal of C. C. C. camps.

Senator MEAD. Mr. Kelley, do you swear to tell the committee the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KELLEY. I do.

TESTIMONY OF GEORGE L. KELLEY, PASADENA, CALIF.

REASONS AGAINST REMOVAL OF ANGELES CREST, CALIF., C. C. C. CAMP

Mr. KELLEY. Senator Mead, we brought a few people in from three different, small, mountain towns, Sierra Madre, Altadena, and Montrose, to give you a short word picture of the necessity for retaining the Angeles Crest Camp in the Arroyo Seco area.

Senator MEAD. Has it been removed?

Mr. KELLEY. It has been temporarily removed to the Dalton Camp at Glendura. We did that to keep the equipment here until this board could get the full facts and make a decision on the necessity of keeping this camp here.

I appeared last Thursday, I believe it was, before Senator Wallgren and impressed on him the necessity of keeping the camp here. He arranged to hold what we call the Tuna Camp temporarily until the end of the month, to give us a chance to get the facts before you today.

Senator MEAD. So that the unit is in the vicinity but not on the location?

Mr. KELLEY. It is not in the particular location we want to keep it. The necessity for keeping it in this location is that this Angeles Crest Camp was one of the first ones that came in after the big Montrose flood in 1933, and that was one of the reasons why we had the C. C. C. out here. They are familiar with the entire area back here, and we are taking them away from where they are of the greatest use. The Government itself is spending \$1,170,000 as the first fire-prevention area in the United States. That is taking place in the upper Arroyo Seco. That program is just starting up there now. These boys can be of tremendous value not only in protecting that area but in protecting what we call the water life line from Boulder Dam alongside of the Sierra Madre Mountains, down to Los Angeles, and from Owens Valley in through the west side, through Montrose.

Senator MEAD. Can't they give the same quality of protection where they have been transferred to?

Mr. KELLEY. They could, to a certain extent, but this is the place, they know the territory. The boys have been trained back here.

Senator MEAD. Is this place closer to the aqueduct?

Mr. KELLEY. Yes; it is closer to the area where we need protection. This is where both the aqueducts converge, and we need to spike camps there to prevent fire and get the boys out quickly, so we don't have a tremendous lot of heavy fire fighting to do later.

Senator MEAD. Have you had any fires there recently?

Mr. KELLEY. No; we haven't, because we have been watching it carefully. We have a 50-year cover crop we are very jealous of. In other words, we try to keep crying wolf all the time so we don't have a fire. When the fires hit us, then we have trouble.

We have a few things we want to present here, a little evidence, to show the result of the fires, and I have three of these here, Mrs. McDonald who went through the Montrose flood—I would like her to give you a short picture of it—and Councilman Paul Carter of Sierra Madre. They are right under the gun up there. I would like to have him give you a short picture. And Officer Pulfer from the sheriff's office in Montrose to give you a short picture of the tremendous

value of these boys in helping on accidents, traffic accidents, back in that whole area. It is worth while.

Senator MEAD. Before the committee takes it up, have you taken it up with your Representative from that district in the Congress?

Mr. KELLEY. Yes; we have wired. I have a copy of a telegram I want to file with you. We wired—Mr. Carter has wired Carl Hinshaw and Voorhis, and they are doing everything they can back there, and we have written the President on the 7th.

Senator MEAD. What about the Senators?

Mr. KELLEY. We have wired the Senators. This telegram is to Johnson and to Downey. So we have taken every action we can there, but the orders come out here to cut down the C. C. C. In this particular area we have plenty of boys. We had 200 boys on the closing date, to put in.

Senator MEAD. The committee wouldn't want to take up a local matter unless it were brought to the attention of the delegation in Congress.

Mr. KELLEY. We want to impress on you the necessity of protecting our water life line. The airplane plants in the valley, that you have looked over, and the harbor and the oil and everything are worth nothing unless we can get—

Senator MEAD (interposing). They depend on water and power. Do you want to file that correspondence with the committee?

Mr. KELLEY. Yes; I want to.

(The documents referred to were marked "Exhibits Nos. 102 to 107" and are included in the appendix on pp. 1934-1937.)

Senator MEAD. Is there anything else that you want to put in?

Mr. KELLEY. I want to file that.

Senator MEAD. This is the general outline of the area?

Mr. KELLEY. The Arroyo Seco. This gives you an idea of the kind of homes that is protected over in Montrose. That will give you a picture of the result of the flood. I want to show that to show you—

Senator MEAD (interposing). This was when?

Mr. KELLEY. This is the 1938 flood.

Mrs. McDONALD. 1933.

Mr. KELLEY. No; 1938.

Senator MEAD. In '33 you had one and in '38 again?

Mr. KELLEY. '38 again. It has cost us \$1,000,000 to put a drain at the lower part of the Arroyo Seco, and then \$1,000,000 being spent up above.

I would like to put these three people on the stand because they can give you something that is valuable, to give you a short word picture for the record.

Mrs. McDonald, from Montrose.

Senator MEAD. Mrs. McDonald, do you agree to tell the truth and nothing but the truth, so help you God?

Mrs. McDONALD. I do.

TESTIMONY OF MRS. McDONALD, MONTROSE, CALIF.

Senator MEAD. Proceed. Give us a nice little picture.

Mrs. McDONALD. I have lived in the valley, in San Fernando Valley, since 1923. I was there when we had the great fire in 1927

which destroyed, completely destroyed, our Elfin Forest. Our Elfin Forest is just as important to us out there as the great forests are in the North because it holds the soil and, when that is gone, then we just have these terrible floods. In 1927 we had this terrible fire which took over the whole of the Sierrro Madre Mountains, came down across our valley there. In 15 minutes it was over Verdugo Hills, it leaped; it didn't destroy it down in the bottom but leaped over to Verdugo Hills and went down over the Burbank side, burned up 100 homes in less than—not 12 hours.

There is nothing you can do to stop a fire with inexperienced fighters. These boys up there are equipped with heavy shoes and heavy clothing. They are accustomed to obeying orders. They know how to fight fire. They are accustomed to shoveling. If we have to depend on coming down here to Main Street to pick up the derelicts to come there and fight a fire, when we have a fire started 15 miles from Los Angeles, it is going to get away from us.

In 1933 we began. You see, we haven't had any protection up there except our forestry department, which do yeoman service, and our own fire department, but there are so few men, and they can't do it all. When a big fire gets started, they just can't take care of it.

Senator MEAD. You have ample fire protection for the community life?

Mrs. McDONALD. Yes; as far as homes are concerned, if the fire starts in a community.

Senator MEAD. And you have a State forest service?

Mrs. McDONALD. Yes; we do.

Senator MEAD. You have a Federal Forest Service?

Mrs. McDONALD. They are very good but not manned to take care of a tremendous fire.

Senator MEAD. Were they weakened by the draft?

Mrs. McDONALD. I don't think so.

Senator MEAD. Have they been depleted by economic moves?

Mrs. McDONALD. I don't think so.

Mr. KELLEY. We never had enough.

Mrs. McDONALD. It is not manned enough. They are all right to direct fires, to direct men who are able.

In 1933 we had this fire in October, which took off—it burned this way [indicating] and burned back again over that whole Sierra Madre and completely destroyed the Elfin Forest. In December, the last night of December—it rained several days there—at midnight we had that terrible flood which destroyed life not only in our community but destroyed life all the way to Long Beach, clear down to the ocean. There were people destroyed in that flood. You see, you have to protect the fire where it starts. You have to start at the beginning. It won't do any good to make a lot of protection down here in Los Angeles or Long Beach, along the way, if you don't do anything at the head. So we are asking you to leave the C. C. C. boys up there where they can stop that fire when it gets started.

We haven't had a serious fire since those boys have been put out there, and we really feel it is not only protection for us and for Burbank, for the airplanes over there, but also for the people in Los Angeles.

Senator MEAD. Plenty of work for the boys to do there?

Mrs. McDONALD. Oh, yes. There is no question about that.

Senator MEAD. Thank you very much.

Mr. KELLEY. I would like to introduce Paul Carter, councilman.

Senator MEAD. Do you solemnly swear to tell the truth and nothing but the truth, so help you God?

Mr. CARTER. I do.

TESTIMONY OF PAUL CARTER, COUNCILMAN, SIERRA MADRE, CALIF.

Senator MEAD. Do I understand you are the councilman?

Mr. CARTER. Councilman from the city of Sierra Madre, a community of about 5,000 adjacent, north of Pasadena as Mr. Kelley said, "under the gun."

We are particularly interested in the maintenance of the Angeles Crest C. C. C. camp, for two reasons. In the first instance, the Angeles Crest Camp is located at the foot of the Angeles Crest Highway which, reference to a map will show, parallels the Arroyo Seco, the main stream running down through Pasadena and crosses and parallels the head waters of both the Los Angeles River and the San Gabriel River. The main branches of those streams are served by this Angeles Crest Highway. In other words, the establishment and maintenance of the Angeles Crest Camp at the foot of this highway makes this sixty- or one-hundred-man personnel immediately available to any incipient fires which may start in that area. And the Sierra Madre Mountains or San Gabriel Range area is the main watershed for both the Los Angeles and San Gabriel Rivers. Consequently, any flood damage originating in that area by reason of a burn-off, as a result of forest fire, injures the entire valley area between Pasadena and the ocean between Pasadena, Long Beach, and the other coast communities, with the consequent loss of life as Mrs. McDonald has indicated.

Our own experience with the C. C. C. has been, in the past 2 years, that incipient fires which have started in our immediate area, that is in 3 or 4 miles of mountain foothill area, brush-covered area, adjacent to Sierra Madre, the C. C. C. equipment, water tank, trucks and men and shovels and the proper Forest Service, United States Forest Service, supervisor of the town, is right on the job within 10 or 15 minutes after an alarm goes in. In other words they are on the job just as fast as a city department is in a metropolis.

From the standpoint of the defense industries located along the foothill communities, particularly the aircraft plants in Burbank and Glendale, it is the opinion and the belief of those who know what results a severe forest fire can bring about, that the lack of that protection can be just as serious as if we were to experience a severe bomb raid. In other words, loss of communication, water pipe lines, oil pipe lines, wire communications, electrical lines, caused by floods resulting from forest fire, are just as severe and just as much of a potential enemy as any bombing raid could possibly be.

For that reason, we would like to add our word to the maintenance of the Angeles Crest Camp, which location we believe is the most strategic. True it is not close to Sierra Madre but is 10 or 12 miles

distant, but, from the standpoint of the picture as a whole, it seems to be the most strategic location.

Senator MEAD. I don't dispute your contention, but it is apparent that the protection is needed now during this emergency, so far as the aqueduct and the power lines are concerned.

Mr. CARTER. That is right.

Senator MEAD. If that added argument that you have just given us is also considered, it seems to me there would be justification for the retention of the C. C. C. camp in the area.

Mr. CARTER. I would be happy to supplement these remarks with a map.

Senator MEAD. We appreciate your testimony, and every bit of it will be brought to the attention of the C. C. C. authorities when we get back.

Mr. KELLEY. I would like to introduce officer—Deputy Pulfer, from the Montrose station, over at the sheriff's office. It will only take him a moment but I think it is important.

Senator MEAD. Do you solemnly swear to tell the truth and nothing but the truth?

Mr. PULFER. I do, Senator.

TESTIMONY OF HARRY PULFER, MONTROSE, CALIF.

Mr. PULFER. The other folks have covered this pretty well in its aspects. The thing here is we are losing manpower, trained manpower, that cannot be replaced even from the State employment service. I have worked shoulder to shoulder with the United States Forest Service. You asked if they are undermanned. They are not undermanned but they depend on C. C. C. camp and the State employment camps to fight the fires, and you are taking the trained C. C. C. boy out of our district.

You have just come from a survey of the planes. You know the oil and the rubber and war industries. This county is bisected by the San Gabriel Range, by the Verdugo Hills, by the San Rafael's and by the Malibus.

You are pulling out camps when you should be putting camps in, because you have trained manpower. I have been told by rangers that a C. C. C. boy is worth five of the men you can pick up. They are trained and equipped, and they are young.

I have been through the mountains; those are young mountains and steep, and they will break the backs of an old man. They can't take care of themselves.

I speak from law enforcement, and I represent one substation, and if the others knew it, I would represent all 12. From the standpoint of the boys in the service, they have helped us in mountain rescues, in lost persons, in fire and flood, automobile accidents down in the canyon, taking them out 14 miles because they couldn't take them up over the cliff. We need manpower for protection.

This country has 2½ million people. They have no Army camp to call on for manpower within 70 miles. March Field, with the exception of a few soldiers at Fort MacArthur, 275 miles to San Luis Obispo. We haven't anything to replace them. That is the thought. Instead of pulling them out, they should put them in, not because

we need the fire protection—we need it bitterly here—but the fire in that country back there, saboteur or something of that kind. I could personally set this country on fire that would take the manpower of this county to put it out, in about 3 hours with a motorcycle, and you are taking our protection away from us, trained protection.

I just came from a conference with the forestry man, and he said it isn't five to one; it is for three C. C. C. boys, five untrained men; but, irregardless, the point is, instead of taking out, they should put in, because this is a critical spot down here.

Senator MEAD. I suppose that is the opinion of the sheriff, also, isn't it?

Mr. PULFER. I can't speak for the sheriff. I can only speak for myself and my captain and the captain at Altadena. I have been stationed in that district 10 years; that is, our mountain area, 290 square miles of mountainous district.

I tell you, Senator, if a fire starts in there, with the right conditions, with high wind, they will fill up every bit of flood control. The supervisor talked about the freeway. That freeway and flood-control channel down through Los Angeles will be running banks full and road full, if you burn the mountains over. That is the head waters of the Los Angeles River. The disaster will spread clear down to San Diego and Long Beach, as it did in 1938 and 1934.

I am sorry I have taken so much of your time.

Senator MEAD. That is all right. You have presented a very good case.

Mr. KELLEY. I would like to add a few pertinent points that we must get into the record. Not only the Angeles Crest Camp but the Tuna Camp is the other camp that go together there, that work together. At the time the order came out on the 14th from Washington to disband this one camp, the Angeles Crest Camp, we had 200 enrollees ready to go in with the Los Angeles selecting agency. So we have had boys here. There is no trouble about that. We have taken care of that. During the whole July enrollment, a lot of the boys that wanted to go into the camps were sent up to another camp and went A. W. O. L. So we have a situation of that kind.

We have plenty of boys here if they are given the proper treatment.

Senator MEAD. We appreciate it, Mr. Kelley. You presented a very nice case.

Mr. CLARK. Senator Mead, this is Mr. Heap, representing the Engineers and Architects Association of Southern California.

Senator MEAD. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. HEAP. I do.

TESTIMONY OF GEORGE A. HEAP, ENGINEERS AND ARCHITECTS ASSOCIATION OF SOUTHERN CALIFORNIA, LOS ANGELES, CALIF.

HANDLING OF DEFENSE CONTRACTS

Senator MEAD. Go ahead, Mr. Heap.

Mr. HEAP. Our position is this, Mr. Chairman—

Senator MEAD (interposing). Are you speaking for yourself or for the organization?

Mr. HEAP. I am speaking for myself and as the chairman of this special committee of the Engineers and Architects Association of Southern California.

Our idea is that we engineers and technical men who have worked on these defense contracts, on the design and construction, will be able to furnish this committee with some vital facts as to how they have been carried out. And we also want to make some suggestions which we feel might be beneficial and bring about constructive results for the national-defense program, and which we feel will expedite matters in order to get the job done. That is our sole interest in the matter.

In the first place, I want to say there are about 600 technical men, engineers, and architects in our association, the majority—

Senator MEAD (interposing). Engineers and architects?

Mr. HEAP. That is correct—the majority of whom have been employed in connection with either the design or construction of the defense contracts, and the purchasing of materials, specifications, and so forth. We have a great deal of information in our files as to facts, as to what has gone on on these defense contracts, which we will be glad to furnish your committee.

I myself have worked on some of the defense contracts, and I would like to use that as an illustration because it is what I know of my own knowledge and what I have seen.

This particular project was for the design and construction of the power plant at the Anchorage air base, to be constructed at Anchorage, Alaska. This was a contract on a cost-plus fixed-fee basis, as far as my understanding is concerned. It was a contract that was supposed to be rushed through and gotten out as soon as possible, with the greatest amount of haste.

This air base is located, from what I have been told, 56 miles across from the Bering Sea, from one of the largest Russian air bases in that particular territory.

This plant was to be a turbogenerator steam plant, fueled with coal, and to have auxiliary Diesel-oil engine units to furnish the power and light for that particular air base.

In this connection, the original borings that should have been made before the foundation for the buildings were designed were never furnished us by the War Department which had a small force stationed at that particular point. We were unable to ascertain what the conditions were as to ground water, the character of the soil, or anything of that sort. We were never furnished with the B. t. u. capacity of coal to generate heat. This condition has resulted—I am rambling along here but I am trying to make myself as clear as possible.

The fabrication of the steel was awarded to contract before the specifications were written. The fabrication of the reenforcing steel was also awarded on a somewhat similar basis.

Subsequent to that time, we were instructed to write specifications in order to purchase these materials. Just what happened to those specifications, I have never been able to learn, or where they went.

Equipment was sent to Seattle and was supposed to have been shipped by transport to this particular air base. From information that reached me from men who were in Alaska on a construction job, they arrived there and found there was no lumber available in order to build a warehouse to warehouse the cement, and some 11,000 barrels

were to be used on that particular job. The trucks and shovels and other equipment had gone to some other destination and hadn't arrived. They were able to borrow enough lumber to build a construction shanty to operate in, and there were barracks in which to live there. They were very much disgusted with conditions at that particular point.

They found that the British thermal unit capacity of the coal instead of being from 12,000 to 14,000 B. t. u. only had a heating value of 7,000. This plant was a very large plant. The estimated cost of it was from three to five million dollars. They found that they wouldn't be able to use the coal, as they had planned to furnish the power for the generation of electricity.

Then they had to start in and try to design an oil-fuel plant, after the contracts and everything had been awarded. In this particular instance, this contractor had the design, the purchasing of materials, and the construction of this particular defense project under his own control, and there are a good many other facts pertaining to it, but I think that gives you a general picture of this particular contract.

In other instances, there have been technical men employed on the different projects, who have been paid at different rates of pay, on an hourly basis, which leads to a great deal of dissatisfaction among the technical engineers and employees, to be working along with groups of employees that are working for one contractor, getting a higher rate. It tends to promote shifting around and doesn't stabilize and expedite matters in getting the job designed and constructed. In that connection, the employees themselves move from one project to another, and it creates a big turn-over and a very dissatisfied state of affairs, as far as the technical men are concerned.

I believe you appreciate the fact that nothing can be constructed until the plant and all these things are designed and put on blue prints, so we can go ahead.

In other projects—I am going to give you the card of Mr. Paul Bateman who is a registered engineer. He has evidence, so stated to me, wherein pay rolls have been sent to Washington stating that engineers employed on this particular project, at Permanente, have been shown receiving \$2.50 per hour plus time and one-half for overtime, when in reality they only received \$1.50 per hour. That is one of the things that our association doesn't have any means to investigate or go into, but it does show, at least indicate—it is hearsay as far as I am concerned—if you did want to contact Mr. Bateman, there is his name and address. I don't want to take up too much time.

Senator MEAD. He has the information that you explained, with reference to the upping of the hourly wage rate?

Mr. HEAP. Yes; in other words, the way he explained it to me was this: That this particular contractor has two pay rolls, one he sends to Washington and one that he has for his own files, and he saw the pay roll for May 1941 in which the pay roll going to Washington showed the hourly rate was \$2.50 an hour whereas, in reality, the engineers were paid from a pay roll at a rate of \$1.50 per hour, or approximately that amount. I am trying to repeat his story. He has the information.

Senator MEAD. You mentioned that project up in Alaska and you explained that they ordered the steel and reenforcing bars before the specifications were drawn.

Mr. HEAP. That is correct; yes, sir.

Senator MEAD. How could they do that? How could they order the fabricated steel without knowing what the specifications were?

Mr. HEAP. I will try to explain that. I have been told by several engineers who worked on this same project with me that one member of the firm went to Seattle and bought a structural steel plant and awarded themselves the bid, also purchased a reenforcing steel plant and awarded themselves the bid for that. I have heard, from other sources, that they also purchased the cement and lumber on a similar basis. Just how they could do it, I don't know. I have never been able to find or see the original contract under which that company was operating, although we have tried to find it.

Senator MEAD. Who had that contract up there?

Mr. HEAP. Bechtel-McCone-Parsons Corporation. They, I believe, I have been told, are a subsidiary of the Kaiser interest, Henry J. Kaiser.

Senator MEAD. That was an air base at Anchorage?

Mr. HEAP. Anchorage, Alaska.

Senator MEAD. It is completed now, is it?

Mr. HEAP. No; it isn't. They are having a terrible time up there on that job.

Senator MEAD. What seems to be the trouble?

Mr. HEAP. Well, as I explained to you, the plant was originally designed for coal which would produce 12,000 to 14,000 B. t. u., whereas, in reality, all the coal there can only produce 7,000.

In trying to check the reenforcing steel bar that goes into concrete, we were not permitted to do that. In other words, the construction drawings are sent to us and then we are supposed to check them back against the working drawings in order that the reenforcing steel bar will go into the concrete and 7 or 8 feet won't stick out of the concrete. The only thing you could do in a case of that kind would be to burn it off.

In trying to check these, we found the reenforcing steel would not check, and some of the bars did stick out of the concrete from seven to eight feet. We were told—I was told that the steel had already been bought, in fact it was already on its way to Anchorage, when we started to check it.

I have been told that the situation at Anchorage is in a very bad state. In other words, they have ground water there when there wasn't supposed to be ground water. They struck a spring where they were supposed to have a drainage sump. The steel won't fit. I understand the steel for the hangars is to be handled by another contract. The trusses have been there for a long time but the columns haven't arrived yet. That is the general situation there. I understand they are still checking the plans of a job which ordinarily could be completed in a few months, and almost a year has elapsed since they started the preparation of these plans.

Senator MEAD. And the job isn't finished as yet?

Mr. HEAP. No, sir; it isn't finished. They are having a terrible time up there, I heard from a man. Whether he would jeopardize his position in coming before the committee, I don't know.

Senator MEAD. I suppose you would agree that the project presents an opportunity for the committee to find out just how some of this work is being conducted.

Mr. HEAP. I would consider it a very good example of how it has been going on.

Senator MEAD. Probably a little unusual as an example, wouldn't you say?

Mr. HEAP. Well, it might be because it is one of the first contracts that was awarded, but it is a typical example of how these defense contracts have been handled.

We have a lot of other information in our files and among our members as to how the construction of ships has been handled, and how other things have been handled, but, to my way of thinking, this is a typical example of what can happen, in other words, unless you have the proper administration.

We have some suggestions to make after giving this considerable thought and trying to help out. Our suggestion is that, if the technical personnel of the United States or any locality thereof is to be utilized to the fullest extent—and we have all read that there was a shortage of 100,000 engineers and technical men—this work could all be expedited if some central coordinating engineering board was set up with authority to coordinate and correlate the different activities that go on in connection with the construction of these projects. It would help to keep the different contractors from getting in each other's way. It would see to it, for example, that the concrete and the aggregate and all the cement would arrive first to build the foundation, order shovels to open up the foundation, and that the structural steel that was to be erected on the foundation wouldn't arrive first.

Senator MEAD. Everything would arrive in its proper sequence?

Mr. HEAP. That is right. It would help to coordinate and get it done.

Senator MEAD. Under the plan of operation at Anchorage they have the wagon before the horse.

Mr. HEAP. And several other things, lumber, changes in design, and so forth.

Senator MEAD. I think the committee ought to go up there and look it over.

Mr. HEAP. I would like to add that there is a good deal of engineering personnel that isn't being utilized, due to the fact that a good many contractors and firms who have never been in the engineering business before have been able, in some manner, to secure enormous contracts, and not only one but several, which has acted as a sort of dam. If the available technical personnel, engineers who have offices, were subcontracted a part of that work, under such a central coordinating engineering board, as we suggest, that would also help.

Last but not least, we would like to see the wages and hours and working conditions of the technical personnel on these various jobs stabilized so that the men will stay there, help get the work done. That would do a wonderful piece of work to expedite the entire design and construction of a good many of the jobs, and they wouldn't want to leave one job and go to another.

Senator MEAD. You would like to see the work spread so this great family that we have, of expert technical men would all be kept in employment?

Mr. HEAP. That is correct.

Senator MEAD. And the local technical men that have a thorough knowledge of the facilities and resources and the personnel in that community would be selected over the importation of technical men from distant parts of the country?

Mr. HEAP. That is correct. In other words, a condition exists to-day where several large defense projects are going to start in the Los Angeles area. There are several large defense projects going to start in Seattle, Wash. They are all crying for technical men. If the rate of pay, for example, is higher in Seattle than it is here, and a contractor over there offers double the rate of pay to what they do here, or one and one-half, the men will go there and this contractor is left high and dry.

Senator MEAD. It wouldn't be stable at all, would it?

Mr. HEAP. No, sir.

Senator MEAD. We appreciate your coming.

Mr. HEAP. If we can be of any further service, we will be glad to do so.

Mr. CLARK. Senator Mead, this is Mr. Burke.

Senator MEAD. Do you solemnly swear to tell the truth, the whole truth and nothing but the truth, so help you God?

Mr. BURKE. I do.

TESTIMONY OF MILO F. BURKE, COULTER, SIBBETT & BURKE, LOS ANGELES, CALIF.

PROBLEM OF OBTAINING GOVERNMENT FINANCING FOR NEW DEFENSE INDUSTRIES

Mr. BURKE. I am interested in and have developed a high-frequency smelting furnace that will reduce metal directly from the ore. In other words, here is a piece of ore and in 6 minutes I will produce that [indicating].

Senator MEAD. Without any other process?

Mr. BURKE. That is right, with electricity.

Senator MEAD. With the one process?

Mr. BURKE. With one process. It doesn't come down as a matte. It comes down, as you see, in true metal. It is through the use of high-frequency current and fluxes that we do that. Not only reduce copper but this particular ore is very high in gold. That ore will run about \$328 a ton, gold and copper. This is rather complex, but I brought it along just to show you. This is gold on top, iron here and copper here. That particular ore contains those three elements. We bring them all down.

Senator MEAD. Can you do that in one process?

Mr. BURKE. Yes; that is all in one process, just as it came out of the furnace.

Senator MEAD. Then you have to go through another process to separate the metals? Can you do that?

Mr. BURKE. That is done all the time.

Senator MEAD. Have you got it?

Mr. BURKE. I am not particularly interested in doing that. That is a very easy process, through acids.

Senator MEAD. This is gold here?

Mr. BURKE. Yes.

Senator MEAD. Just this small portion?

Mr. BURKE. That was a very small portion; gold plate.

Senator MEAD. This?

Mr. BURKE. That is a high-grade iron that has a lot of tungsten in it, and it is pure copper. Taking a pure copper ore, or as close to pure copper as possible, we will get pure copper out of it.

Senator MEAD. What you do is to separate the metal from the ore and then the metal finds its own location?

Mr. BURKE. That is right. It doesn't come down as a matte. In the ordinary process today in making copper it comes down as a matte and goes into a reverberatory furnace, and in another furnace that blows impurities out of it, and it goes into the acids plated, and is rated as pure copper.

Senator MEAD. What could the defense program do in your case?

Mr. BURKE. We can fabricate the furnaces and produce any of the metals that you want. In other words, there are lots of metals here in the West, but there are very few furnaces to reduce them. There are no furnaces today that will reduce metal directly from the ore, particularly the ferrous metals in the West.

Senator MEAD. What is your problem now?

Mr. BURKE. My problem, particularly, is just to put this development before you, to let you know that there is a process that has been developed to an extent that we can show it to you, and if the Federal Government so sees fit to advance us any money on the idea, to build a furnace or build a series of furnaces that we can put on a property, and there are lots available, lots of fairly good nickel and chrome properties on the west coast, and I can reduce nickel to the metallic state and have the furnace ready in 3 months to do it.

Senator MEAD. Have you ever taken this matter up with the Bureau of Mines?

Mr. BURKE. No; we haven't. This is comparatively new. It has never been taken up with the Bureau.

Mr. FULTON. That is the agency of the Department of the Interior which is charged with scientific research in these particular fields. We have asked their opinion on various processes which have been recommended to us. I think you probably should take it up with them because, if they approve it, you have gained a long step in the process of trying to get the finances. There would be no Federal financing without such approval.

Senator MEAD. That is right; you would have to have their approval before you could have Federal financing.

Another suggestion, in addition to Mr. Fulton's, which I trust you will follow, by bringing it to the attention of the Secretary of the Interior through the Director of the Bureau of Mines—that second medium for the consideration of this problem of yours is the committee of which Senator O'Mahoney, of Wyoming, is the head. It seems to me it is a subcommittee considering the problem of the small metal interests of the West. Their idea—and they have been holding hearings—is to secure some defense contracts for interests in the metal States of the West, that can add to our strategic material supplies, where it is not now being done.

If you would therefore address a letter to Senator Joseph O'Mahoney at the Senate Office Building, as well as to the Director of the Bureau of Mines, explaining your proposal, I am sure it will receive some consideration.

We might refer the record that we have made of his case to both agencies, send them copies.

Mr. FULTON. Yes.

Senator MEAD. I know that subcommittee is considering the development of industries in the West in order to add to our strategic mineral resources.

Mr. BURKE. This is absolutely new, and no one else has ever done it.

Senator MEAD. I have never seen it before. It looks interesting.

Mr. CLARK. This is Mr. O'Steen.

Senator MEAD. Do you solemnly swear to tell the truth and nothing but the truth, so help you God?

Mr. O'STEEN. I do.

TESTIMONY OF CARY O'STEEN, SECRETARY, LOS ANGELES MINING EXCHANGE, LOS ANGELES, CALIF.

Senator MEAD. Mr. O'Steen, you may proceed.

Mr. O'STEEN. Senator, I am secretary of the Los Angeles Mining Exchange. It is a new organization, relatively new, civic purpose corporation of California, a nonprofit corporation. It is organized for the purpose of developing mines; for increasing the number of producing mines in America.

Senator MEAD. All kinds of mines?

Mr. O'STEEN. All kinds of mines but particularly mines that will produce strategic minerals. We have, as you know, of course, a strategic, critical, and essential minerals list, and, at the same time, Senator, we have listed right here in the Mines Register more than 20,000 deposits of those minerals and others. Among these 20,000 deposits are all of those strategic metals.

Senator MEAD. Many of them are not produced in any sizeable amounts in this country?

Mr. O'STEEN. That is correct; only 3,000 of those 20,000 are contributing to the metal supply.

Senator MEAD. Other metals are imported into this country?

Mr. O'STEEN. Other metals? Well yes. The strategic minerals are now being imported into this country, while we have this great natural resource here undeveloped.

Senator MEAD. Is it because they are imported much cheaper than they could be developed and processed here in this country?

Mr. O'STEEN. No; it isn't on account of that, Senator. It is because there has not been, throughout the history of mining, say, the last 100 years in America, a clearing house or market place for the mining industry. There has never been a place—

Senator MEAD (interposing). What about the Bureau of Mines?

Mr. O'STEEN. They are not organized for the purpose of establishing contact between the owner or the prospector and capital in any way. That is not a part of their function.

Now, there never has been and isn't now, until this corporation was organized, a market place or an organization destined to be a market

place for the mining industry. I mean an established headquarters, where mining properties can be listed for sale or lease; where prospectors can report their strikes, and where investors, financiers, and mine operators can read the listings and have access to engineering reports on all available properties and mining claims, from which they can select properties suitable to their requirements.

I have here two small samples of manganese ore and an assay certificate on that. This is just an illustration of the work that we are undertaking to do. This man whose name is on the assay certificate is a prospector, and he brought in this ore and joined the exchange last Saturday. I have here in the file, if you want it, additional illustrations of the work. I have here other cases very similar. For instance, here is a report from Payson, Ariz., dated June 6 wherein this man opens the letter with these words:

Perhaps the most sensational discovery of tungsten ore in the State has recently been made by myself and associates.

Now, this is a new discovery and originally reported to us, the exchange, and he asked at the bottom of his letter if we can put him in contact with someone who is financially able to put the property on proper production.

Senator MEAD. Has his statement been verified by your association?

Mr. O'STEEN. No; Senator.

Senator MEAD. Before you recommend a proposal of that kind I presume you would investigate it.

Mr. O'STEEN. We have a mining engineer on the way there now from the largest producer in America. It says here:

We have referred this matter to one of our field engineers, Mr. R. A. Rodriguez, who is in New Mexico at the present time, and we have asked him to contact this property.

Senator MEAD. That is all right.

Mr. O'STEEN. That is just an illustration of the work the exchange is doing. Here is a letter from an ex-Governor of the State of New York in which he says:

In my judgment, you are on the right track. It fills an essential want, important to all the people of the country.

Senator MEAD. Is that a recent letter?

Mr. O'STEEN. Yes, sir.

Senator MEAD. April 22?

Mr. O'STEEN. Yes, sir. We have a great many other letters of that character. We have found, Senator, in operating experimentally the past year, since July 3, 1940, the date of incorporation, that there is no bar or hindrance to the development of the exchange and to bringing the exchange into the full accomplishment of its objects and purposes of producing metal from these dormant mines and other new deposits that are being discovered constantly and reported to the exchange.

Senator MEAD. Is that the list of mining resources in the United States, in that book?

Mr. O'STEEN. Yes; it is the most authentic list of mining resources.

Senator MEAD. What publication is it?

Mr. O'STEEN. It is the Mines Register, published by the Atlas Publishing Co., New York, and contains more than 20,000 mineral deposits

or a listing of those deposits which have reached the status of "mining companies." Prospects and claims filed on deposits which have never been financed or worked to any considerable extent are not listed in this book. The number of deposits in this category—unlisted—is estimated at 35,000. This indicates that there are 55,000 mineral deposits located in America, of which only 5,000 are working and 50,000 are dormant.

Senator MEAD. It looks to me like the opportune time for the Government to go into this matter, for the reason that the need is acute, and it may become chronic. If we utilize our leadership and our intelligence, we might add to our military preparedness strength and also to our economic self-containment. We would, of course, have to proceed cautiously, make sure that the proposals were all authentic and properly verified, and that we could produce the minerals economically. We certainly wouldn't want to force upon the people of the country the added financial burden of buying our high-priced materials, if they could be purchased at a much lower price some place else.

Mr. O'STEEN. I agree with you, Senator.

Senator MEAD. So there must be verification and support for it.

Mr. O'STEEN. Yes. We do not propose, as a mining exchange, to make an appeal to the Government for funds for the development of mineral resources direct, but engineers today tell us that almost any mineral deposit can be put on production on an economic basis due to modern development in mining and metallurgy, new scientific development. So the exchange is organized for the purpose of establishing contact between the owners and prospectors and capital and operators, like, for instance, in this case where this largest producing tungsten company in America is now negotiating for the new discovery of tungsten in Arizona that I have just shown you. This is just a clipping from a local paper showing the company that this letter is from, developing the world's largest tungsten mine now. So that you can see the large operators are interested.

Senator MEAD. Bishop? That is Bishop, Ariz.?

Mr. O'STEEN. That is in California. It is about 300 miles from here.

Senator MEAD. South, is it?

Mr. O'STEEN. It is north, or northerly.

Senator MEAD. It wouldn't be 300 miles south, would it?

Mr. O'STEEN. No. I just brought that to show it is important, and that important people are interested in the project.

What we found is this, that it requires considerable money to develop the organization which we have started, and the board of directors have spent some money in the organization so far. This is the cash account. That is just the books.

Senator MEAD. And a very young organization?

Mr. O'STEEN. Very young, yes; but we have advanced this experimentally, you see, to see if there was a need for the organization and what its chances are for success. I haven't found any man, mining man, who doesn't in principle agree with this ex-Governor Sulzer, of New York, when he says:

It fills an essential want, important to all the people of the country.

Now, I am appearing before you to ask if you see a way in which we can get Federal support, money of a small amount. I estimate that the organization will be self-supporting within 12 months through membership fees and dues. This little cash account showed very small receipts there, but it would be self-supporting as soon as fully developed.

Senator MEAD. I don't know of any opportunity at present for an organization such as yours to apply for financial assistance from the Government.

Mr. O'STEEN. I don't either.

Senator MEAD. We have in the R. F. C. a regular loaning agency but, under the law and the regulations, you wouldn't be able to qualify.

Mr. O'STEEN. I realize that, Senator.

Senator MEAD. We have a strategic materials agency that is accumulating a reservoir of materials for military defense, for our military defense program, but they wouldn't be interested unless you could deliver strategic material. So that there is no present method of financing an organization established for the purpose of promoting the well-being of the prospector, the owner, and the consumer, the people.

The only financing available now is the financing for the producer who has something to sell or transfer to the Government, or to produce for the people, that will make his proposition self-liquidating. So that I couldn't offer you any assistance except to tell you, as we told the gentleman that preceded you, there is a special committee investigating the strategic materials and the mineral resources of the West. They are meeting in the Senate. It might be very helpful for your association to appear before them. I understand that committee was meeting when we left and is headed by Senator O'Mahoney, of Wyoming. I would suggest that you correspond with him and ask him for the scope and the duration of the hearings. There may be some way in which your organization can make a contribution to the progress of that committee, but there is no agency that I know of that could finance your organization.

At any rate, I think that the organization will do a great deal of good, providing it not only promotes the production of these metals but the investigation of the substantial value of each individual application.

Mr. O'STEEN. That is a part of the objects of the exchange, to form a clearing house and service organization.

Senator MEAD. That will be a very good one, and I think it will do some good.

Mr. O'STEEN. You see this case, for instance, could be put on production very quickly if funds were available, but he can't qualify for a loan quickly.

Senator MEAD. I appreciate your being with us. We want to give the other men a chance.

Mr. CLARK. This is Mr. Teter.

Senator MEAD. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. TETER. I do.

TESTIMONY OF MR. TETER, LOS ANGELES, CALIF.

Mr. TETER. I want to know how much development work I could do to build a mill and whom I could go to see. All I wanted was information.

Senator MEAD. Well, I don't know exactly, except that if you owned the property——

Mr. TETER (interposing). It is Government property, Government claims. I have a bond lease on it.

Senator MEAD. If you control the property and you had any sort of a set-up there now——

Mr. TETER (interposing). I have money enough to do some development work, but I don't know how much I would have to do before I could ask for money to build a mill. It would have to pass engineers. I wondered how much encouragement you would have to offer.

Mr. FULTON. The Federal Government is not ordinarily loaning money on such a project. The local bankers would be the ones whom you would apply to for a loan.

Mr. TETER. Through the R. F. C.?

Mr. FULTON. The loan would be by the local bankers. The R. F. C. would probably make a loan only to a company engaged in actual operations.

Mr. TETER. That is what I will be.

Mr. FULTON. Where it would be a commercial venture that would justify loans, I think your local bankers would make them. So I don't think you ought to count very heavily on an R. F. C. loan, but at least you could contact the R. F. C. on that kind of matter. They have offices here in the city.

Senator MEAD. The R. F. C. is in a position to make three types of loans; one, the regular commercial banking method of loan; two, a loan where a going concern has a defense contract and they can make him a loan on that defense contract; and the third, where a going concern desires to expand and go into another business in addition to the one they are operating, and, in doing so, they would find the need for machinery, having in mind they are going to go into this business to participate in the defense program, and they are not in it now but they are an established business. They have an equity; they have collateral. The R. F. C. could make them a loan. But what they would do would be to buy the machinery and put it in this factory and lease it, rather than negotiate a straight out-and-out loan. The factory, of course, would have the right to buy that machinery, or it would revert to the R. F. C. after the defense program was over. So that they make a normal business loan, as was their original function, and, if you have a defense contract, they can make a loan against that, and, if you are going into defense work, they can buy the machinery and lease it to you, it being in their name until such time as you pay for it. That is the scope of the R. F. C. Whether or not they could take care of your case, I don't know, and I doubt it.

If you had a going concern there and you wanted to expand, and you had an equity sufficient to insure the loan, then probably they would consider participating in that loan with some bank.

Mr. TETER. I didn't know how to go about it. I just read in the paper that this committee was to encourage the mining of strategic metals.

Mr. FULTON. That was the other committee. We are just interested in fabrication.

Senator MEAD. That was the other committee. Senator Murray, who is on that committee, was here for a few days and left the day before yesterday. He is experienced in mining and comes from Montana, and he is making sort of a study of it under and in cooperation with the O'Mahoney committee.

Mr. TETER. I see.

Senator MEAD. I think you would do much better by communicating directly with them because, as our counsel says, we are more or less interested in the finished article, in the fabrication.

Mr. TETER. Could I contact this Senator Murray when he comes back, or would that be advisable?

Mr. FULTON. He will be in Washington. I believe you could go to the R. F. C. offices here in Los Angeles and get information from them as to the type of loan they could make.

Senator MEAD. Have you contacted the R. F. C.?

Mr. TETER. No.

Senator MEAD. I would suggest you go to them and ask them, as the counsel explained, for the various types of loans they are willing to consider. Your project is in Wyoming; is it?

Mr. TETER. No; just over the line, in Nevada. It is only 100 miles from this town of Bishop where this man showed, where the big Vanadium Corporation is.

Senator MEAD. It is in the area where there may be considerable of this material?

Mr. TETER. Yes; I know there is. I adjoin a mine that did produce \$20 000,000 worth of tungsten.

Senator MEAD. You might write Senator James Murray explaining you appeared before the committee, and I suggested you write him for further information.

Mr. TETER. All right, I will do that.

Senator MEAD. Do you solemnly swear to tell the truth and nothing but the truth, so help you God?

Mr. EDWARDS. I do.

TESTIMONY OF MR. EDWARDS, LOS ANGELES, CALIF.

Mr. EDWARDS. I presume I should have seen Mr. Murray, but I thought this was the committee that was working on the study of the natural resources in the Southwest.

Senator MEAD. No; that is the Murray committee.

Mr. EDWARDS. I didn't know. I saw by the Sunday paper they were holding meetings here, and I thought this was the committee.

Senator MEAD. Mr. Murray was here for a number of days.

Mr. EDWARDS. I have had considerable correspondence with Mr. Stettinius in regard to an aluminum and magnesium deposit controlled by our company, and I brought down my carbon copies of letters in case this committee would want to look them over. Just as a matter of record, to know where the originals are, they are in Mr. Stettinius' office in Washington, D. C. But, apparently your committee is not the one I wanted to see.

Senator MEAD. No; it occurs to me that you would be expediting your own case by taking it up with this committee that you mentioned.

Mr. EDWARDS. Mr. Stettinius?

Senator MEAD. No.

Mr. EDWARDS. Mr. Murray?

Mr. Murray and Mr. O'Mahoney. I thought as long as the committee was in Los Angeles I would get in personal touch with them so as to make personal contact with the matter they were taking up with another department in Washington, you see.

Senator MEAD. The publicity he received ran into the publicity we received, and that confused you.

Mr. EDWARDS. Yes; it would all be in Government work, one of the branches working with the other branches.

Senator MEAD. Such testimony as was left here by the witnesses this afternoon will be referred by our committee to their committee, but it would be much better and much more effective if you would confer directly with that committee.

Mr. EDWARDS. That is what I will do. I thought this was the committee until I heard you make the reference that Mr. Murray had already left town.

Senator MEAD. Mr. Murray was sent out by the committee while Mr. O'Mahoney was holding hearings.

Mr. EDWARDS. It is too bad his presence here wasn't more generally known. I didn't know about it until Sunday, and yesterday I spent gathering data and writing a letter to Mr. Stettinius, and this morning I came down with the carbon copies to show.

Senator MEAD. I would send a carbon copy to Mr. O'Mahoney or Murray.

Mr. EDWARDS. They are already in Washington, and Mr. Stettinius has had copies made for the different people to whom he in turn refers the matter.

Senator MEAD. That wouldn't bring it to the attention of the Senate anyway. It would be better for you to correspond with the Senate Committee on Mineral Resources.

Mr. EDWARDS. Senate Committee on Mineral Resources?

Senator MEAD. I would just address a letter to Senator James Murray or Senator Joseph O'Mahoney and tell him you appeared before our committee and we referred you to them.

Mr. McDonald, do you solemnly swear to tell the truth and nothing but the truth, so help you God?

Mr. McDONALD. I do.

TESTIMONY OF W. J. McDONALD, LOS ANGELES, CALIF.

Mr. McDONALD. I represent a mining corporation, Arizona corporation, although our headquarters are here in Los Angeles. We have a new discovery for the treatment of steel. We have been carrying this on since 1928, and we received marvelous results just from external treatment. We believe it would be one of the best things they have gotten hold of, especially under the present national-defense proposition, because it increases the toughness of the steel and the tensile

strength of the steel. It is made from a compound at this mill in Arizona. I met a German chemical engineer about 2 weeks ago who was formerly a scout for Krupps of Germany, and I showed him the spectroscopic analysis of this material. He told me there were only two other deposits, known deposits in the world, outside of this; one was in Sweden, the other is in the Philippine Islands.

I recently treated some steel plates and took them down to the Naval Reserve, and we used rifle fire on them, and there we got 14 percent increase over the untreated plates. There is no question in my mind but what this would be a wonderful thing for the steel companies and for armor plate.

Senator MEAD. What is the process you use?

Mr. McDONALD. That is the test [exhibiting letter].

Senator MEAD. Is this compound you refer to the material that you get over here in the mountains?

Mr. McDONALD. Yes; that is true.

Senator MEAD. And it is used in connection with the manufacture of steel, or after the steel is manufactured, to toughen it up?

Mr. McDONALD. It can be made either way.

Senator MEAD. In other words, you can take steel already made—

Mr. McDONALD (interposing). And treat it with this material.

Senator MEAD. And treat it with this material.

Mr. McDONALD. That is how these tests were made. One of them was treated and the other was untreated.

Senator MEAD. Who is this authority here?

Mr. McDONALD. That is a testing laboratory here in Los Angeles.

Senator MEAD. Then the whole purpose of this process is to toughen the steel?

Mr. McDONALD. That is true.

Senator MEAD. Haven't we a number of processes now to toughen the steel to meet—

Mr. McDONALD (interposing). I can take any steel they have at the present time and increase it with this process.

Senator MEAD. Increase the degree of toughness?

Mr. McDONALD. That is true; yes.

Senator MEAD. Have you tried it on the toughest steel that we have?

Mr. McDONALD. We spent, I guess, about 10 years of research work, testing every type of steel that we could get hold of, and in all cases we have always been able to get an increase over the other.

Senator MEAD. Have you taken this process up with any of the steel companies to see if they would be interested in it?

Mr. McDONALD. We took it up one time, that is when we were carrying on our research work—we didn't take it up. One of the representatives of a steel mill in Pittsburgh asked for a piece of steel that had been treated with this process, and about 3 months later he came through and said he lost that piece of steel, and he would like to have another one. So we gave him another one and about 3 months later we received a letter from the mill in Pittsburgh, "We don't see how you can increase the quality of steel by throwing a little dirt in it." But, regardless of that—

Senator MEAD (interposing). Did they admit it was toughened?

Mr. McDONALD. No; they didn't say one way or the other, but I have a letter from the Southern California Edison Co. who ran a test of nearly 5 years, in one of the power lines on a needle in the hydroelectric, and it outwore everything they had, stellite and all those things.

Senator MEAD. The Navy Department has a bureau for the investigation of improved armor and machinery and ordnance, and it seems to me that you ought to bring this matter to their attention, or furnish them with a sample of the toughened steel in case they would be interested.

Mr. McDONALD. I have a piece that will give you some idea as to that. There is just a common, old bolt. I could take that and make chipped steel.

Senator MEAD. It is a common bolt hammered into a cold chisel.

Mr. McDONALD. Yes; treated with this material.

Senator MEAD. It was heated and treated with this material?

Mr. McDONALD. Yes; heated and drawn out. There is just a piece of—

Senator MEAD (interposing). Steel wire?

Mr. McDONALD. It is just common, old baling wire treated with this. Of course, I don't advocate making springs or tool steels out of ordinary steel, but that is merely to show what this material will do. Here is a bit of it. It does it almost instantly, and the penetration is all the way through the steel. It is not a surface proposition.

Senator MEAD. This is sort of a mineral that you use?

Mr. McDONALD. It is a mineral. We just grind it, pulverize it in about 100-mesh, about like flour, blend some other metals with it, into a compound, and that is what the material is.

Senator MEAD. Why don't you interest some of your friends in the small tool business? It seems to me that a toughened steel tool would be very useful in any of the big or little manufacturing enterprises.

Mr. McDONALD. The county road department have used it, too, and they say it is the most wonderful thing they have been able to get hold of.

Senator MEAD. But you have never gotten it under production?

Mr. McDONALD. We haven't, for lack of capital. I have written, in fact sent a letter directly to the President, and he referred it to the War Department, and they say:

I am directed by the Secretary of War to acknowledge receipt of your letter of recent date addressed to the President, which has been referred to the War Department for reply.

Your suggestions have been noted in the Department, and the correspondence has been transmitted to the agencies concerned for consideration.

That is the last I have ever heard.

Senator MEAD. Well, both the War Department and the Navy Department have an agency to prove up all these contentions. If you could make the armor now used on the Navy ships or the steel used in the Army's ordnance tougher than it is—

Mr. McDONALD. Airplane and all that.

Senator MEAD. You would have to send them a sample. If you could do it, then they would be interested in your project.

Mr. McDONALD. I see.

Senator MEAD. It occurs to me, though, you ought to either interest some of the private steel companies, in view of the fact you haven't

got the capital, or tool manufacturing companies in your process, or, if that isn't satisfactory, you ought at least to develop a small tool producing company. Providing you have a company and a going concern, you would probably be eligible for an R. F. C. loan, but you haven't a company and you haven't a concern.

Mr. McDONALD. Yes; we have. We are incorporated.

Senator MEAD. Oh, are you? I didn't know that.

Mr. McDONALD. We spent about \$70,000 in this property. We have all the machinery for mining. We have a shaft down to 315 feet and a drift there of about 165 feet.

Senator MEAD. But do you sell the hardened, toughened steel? Do you sell it on the market?

Mr. McDONALD. It is all ready to go on the market as soon as we can get the material out, but we need money for boring it and getting the material out.

Senator MEAD. What I am trying to explain is this: You haven't got a firm or a company that could really comply with the R. F. C. regulations, as I understand them. You are in the prospective period. You ought to go to the R. F. C. in this building and explain your lay-out and ask them if, under the defense program, you are entitled to a loan.

Mr. McDONALD. About a week ago I had an audience with them here, and they told me he thought—he was under the impression—we were eligible for a loan.

Senator MEAD. You talked with them in this building?

Mr. McDONALD. Yes; I did. In fact, they are very familiar with this whole set-up here.

Senator MEAD. Did you make application then?

Mr. McDONALD. No; I haven't.

Senator MEAD. It seems to me that either you or your firm, through your attorneys, ought to do that.

Mr. McDONALD. I am the president of the company.

Senator MEAD. I would suggest that you follow the advice of the representative of the R. F. C. here. There isn't anything I know of that this committee could do except to refer your record to the proper or interested people in Washington.

Mr. McDONALD. I see.

Senator MEAD. But if you were manufacturing case-hardened tools by this new process, and if you had a contract with the industries that are doing a defense job, I could tell you that you would be eligible for a loan.

Mr. McDONALD. I could go right to the bank and get it then.

Senator MEAD. But that isn't always true. A great many of them come to Washington for loans that are turned down by the banks, particularly independent and little businessmen. But, under the circumstances, I don't know of anything that I could advise you to do except make application to the R. F. C., or to bring it to the attention of this committee that the other boys were told to refer their problem to.

Mr. McDONALD. Here is what I had in mind in coming up here: Surely, if the Government is interested in increasing the quality—for instance, you take the steel helmet. Under this test which was here, we can reduce the weight of those almost half a pound, and I am sure I can increase this, that is over the untreated steel, at

least up to 20 percent anyway. If steel is treated with this material, it would go into the steel helmets, and we can cut the weight down at least half a pound, possibly more.

Senator MEAD. And improve the safety factor.

Mr. McDONALD. That is it, exactly.

Senator MEAD. You see, if you were in some business, the business of manufacturing the helmet, then you could get a defense contract and, with it, a defense loan.

If you were in the business of making small tools, like the chisel you just showed me, and had a contract with a private industry that had a defense contract, you would be eligible for a loan. But for a loan to develop a business, it is sort of border-line case that you would have to take up with the R. F. C. here.

Mr. McDONALD. I see. Wouldn't the Government be interested in this product?

Senator MEAD. As I explained before, if you could send the proper authority in the Army or the Navy, a sample of your case-hardened, toughened steel, explaining to them that you would like to have them investigate it, contending that it would strengthen the armor of ships or the safety factor of helmets, or anything that would be of material value to them, they will put it through the processes and send you a report on it.

Mr. McDONALD. Can you give me the names of the proper parties that I can send that to?

Senator MEAD. It would be referred to the proper parties if you send it to the Secretary of War and the Secretary of the Navy, with an explanatory letter and a sample. If you wanted to, you could send the letter to the Secretary of the Navy or the Secretary of War, explaining that you have this process and that you have a sample, and that it will be sent to the proper authority upon receipt of a reply from the Secretary. So that that would require two movements: First, the letter to the Secretary and, second, the actual sending of the sample. But you could do it all at once. It may be just as well for you to address a letter to both Secretaries, telling the plan, explaining all about what you have, and asking for advice.

Mr. McDONALD. Thank you very much.

Senator MEAD. I think you are on the track of something that might make materials not now being used of value to the Government and to the people.

Mr. McDONALD. This will apply wherever strength is required of steel. We have gotten as high as 500-percent increase in wearing.

Senator MEAD. Fine. There are many avenues open to you. One is to go into the business yourself, some business that will use this product; another is to discuss the possibilities of the utilization of your plan with steel-manufacturing companies, and the third is having it brought to the attention of and probably approved by either of our armed forces.

Mr. McDONALD. That is the principal thing I had in mind right now.

Senator MEAD. Then you address a communication to both of the Secretaries.

Thank you for coming before the committee.

(Whereupon, at 4:50 p. m. the committee recessed until 10 a. m., Thursday, August 21, 1941.)

INVESTIGATION OF NATIONAL DEFENSE PROGRAM

THURSDAY, AUGUST 21, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM,
Los Angeles, Calif.

The committee met at 10:15 a. m. pursuant to adjournment on Tuesday, August 19, 1941, in court room No. 8, United States Court House, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman (chairman), James M. Mead, and Mon C. Wallgren.

Present also: Hugh A. Fulton, chief counsel; Charles P. Clark, associate chief counsel.

The CHAIRMAN. I know that the sheriff always tells the truth, but the committee has to swear the witness.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BISCAILUZ. I do.

TESTIMONY OF EUGENE BISCAILUZ, SHERIFF, LOS ANGELES COUNTY, CALIF.

QUESTION OF ADEQUATE POWER AND PLANT PROTECTION IN THE LOS ANGELES AREA

The CHAIRMAN. We are interested in the defense situation as it affects this area, Mr. Sheriff. We discussed it with you privately the other day. If you will state to us, for the record, your conclusions as you outlined them to us at that time, I will appreciate it very highly.

Mr. BISCAILUZ. May I just speak informally?

The CHAIRMAN. Yes.

Mr. BISCAILUZ. You want our set-up and what we have done?

The CHAIRMAN. And what you need, principally.

Mr. BISCAILUZ. Well, I would like to preface my remarks by stating that the sheriff's office in Los Angeles County is the same as a metropolitan police department in any large city. We are a uniformed organization. We have 4,083 square miles in Los Angeles County, and three thousand four hundred-odd—square miles of that total is in Los Angeles County, outside of the metropolitan city of Los Angeles.

About a year and one-half ago, with the Los Angeles Chamber of Commerce and other civic groups, meetings were called of different industries in Los Angeles County, oil, transportation, power, to

find just what was necessary to augment or more completely have better plant protection, and other things that were so vital during these times. From that first meeting, a series of meetings were held with the different groups.

I would like to state, from the standpoint of plant protection, I feel that every organization in Los Angeles County that has to do with national defense is doing everything they can to protect their own. In other words, the Army at that time told us very emphatically that every organization in Los Angeles County, I mean corporation, whether large or small, that had to do with national defense, had to protect their own. So I do know that every aircraft corporation in the county, oil, power, gas, and so forth, are, to the best of their ability, protecting their own property.

From the standpoint of the sheriff's office (I can only speak for the county, I believe, in this) we have 12 substations in Los Angeles County. Our Firestone area and our Norwalk area have the bulk of the corporations that are engaged in national defense.

Senator WALLGREN. What do you mean by substations?

Mr. BISCAILUZ. We have miniature sheriff's offices, Senator. We have the county divided into 12 substation areas, and each one of those substations is open 24 hours a day, with the necessary number of men and equipment to police that particular area.

Senator WALLGREN. Do you call those additional facilities?

Mr. BISCAILUZ. Yes, sir; and they are uniformed men. We have two-way radio patrol cars. Our inspectors keep weekly in touch with everyone of these corporations in the county and then report back. We have staff meetings at which we take up matters where we feel that other things should be done, that have been done before, in more adequately protecting the property.

We have 344 men who are attached to these substations, three shifts of men. We have 45 cities in Los Angeles County, including the metropolitan city of Los Angeles.

The sheriff of this county does police work when it comes to major crime, in all of the cities of Los Angeles County.

When it comes to local ordinances, the sheriff assists these cities in their protection of life and property rather than taking the initiative. So, we have had meetings with the fire departments, the 45 chiefs in Los Angeles County, forestry reserves, and have been, as I say, for a year and one-half, doing the best we could to cooperate together. I wish to say that we have a very fine spirit of cooperation and coordination between all agencies here that have to do with the protection of life and property.

Our office consists of 1,000 men and women; that is approximately the personnel of the sheriff's office of Los Angeles County. We are rather undermanned. I would like to state that we don't have the manpower that we should have to more adequately do our work. In other words, we have streamlined our organization to such an extent that we don't have very much lost motion, but we could very easily use 100 more men in doing that work in the unincorporated area of Los Angeles County, putting on more radio patrol cars and keeping in better and better touch with the situation.

We are specializing in our office. We have an antisubversive detail that has been working now for nearly 3 years with the Army and

Navy. We act as a clearing house there and assist in every way that we can when requests come from the F. B. I. or the G-2 or O-N-I.

We have assisted the Army in making surveys, through Colonel Snell at Fort MacArthur, and in every way feel that this is a job, regardless of what particular law enforcement group we might be in, that can't be done by anyone alone. I think we are all cognizant of the fact that we have a big job ahead of us.

Senator WALLGREN. Do you say you have 1,000 men in your department now?

Mr. BISCAILUZ. Yes, sir.

Senator WALLGREN. Approximately, what was the number of men employed in your department a year ago?

Mr. BISCAILUZ. Practically little variation. I don't think there is a difference of five men. In other words, we haven't had any distinct increase in personnel in several years.

Senator WALLGREN. Yet there has been a great increase in the Federal investments in this area?

Mr. BISCAILUZ. Yes, sir. We have over 500,000 people living in Los Angeles County, in the unincorporated area, alone—I am talking about the sheriff's territory—that doesn't have any other police protection except that which the sheriff gives through his substation. At the same time, the small cities in Los Angeles County look to the sheriff's office whenever they have anything there; that is, when they have something that seems too much for a small group of men to handle, they always ask the sheriff's office to come in and help them, which we are willing to do.

Senator WALLGREN. This emergency defense program, however, has heaped an additional load on your shoulders and the shoulders of the county and the city, has it not?

Mr. BISCAILUZ. Yes, sir.

Senator WALLGREN. There has been quite an influx of workers into the area over a period of just a year since—

Mr. BISCAILUZ. Yes, sir.

The CHAIRMAN. This increase in the Federal program has also increased the valuation and the tax income, to some extent, has it not?

Mr. BISCAILUZ. No doubt about it.

The CHAIRMAN. So there is a possibility there would be enough increase in the tax brought about by the increased business brought here by the Federal Government that would probably pay for the overhead required for it, isn't that true?

Mr. BISCAILUZ. There is only one thing, Senator. We have a terrific charity load in Los Angeles County. People come here from all over. That is the thing that is really hurting us in getting the implements to work with, that have to do with our job, because that charity load has been so terrific. It either meant neglecting that duty of the citizens here or of the constituted authorities, or else neglecting the fixed things that should be done, or raise the tax rate.

The CHAIRMAN. That charity load, you think, has also been increased by the increased Federal activity?

Mr. BISCAILUZ. I wouldn't say that. I would say I should think the charity load would be decreased by this much more employment here now.

Senator MEAD. Sometime ago, Sheriff, I read of the prevention of the influx of citizens into this area, who would probably go on relief. Is that prohibition still in existence?

Mr. BISCAILUZ. No, Senator. That was several years ago that the city of Los Angeles undertook to stop at the border lines of California those whom they felt would be indigents when they landed here. For a year or so, I believe, that policy was followed. It is no longer in effect.

Senator MEAD. Well, Sheriff, the rapid upsurge in industrial activity has reduced the relief load and increased the employment and business generally, leaving the city in better position to police its jurisdiction.

You said just a few minutes ago that you conferred with the various industrial organizations. What cooperation, for instance, are you receiving, what specific offer of help, of plant protection, is afforded by Shell, by S. O., or by the various oil companies? Have they really put on added police protection? Have they lit up their plants? Are they arresting anyone for loitering? What specific effort are they putting forth?

Mr. BISCAILUZ. I would like to state that each one of these plants has a plant-protection superintendent, particularly the airplane manufacturers, such as Lockheed and Douglas and Vultee and North American. Every one of them has, as I say, a very fine plant protection. Some of them have former F. B. I. men who were retired, that are working out those problems for them.

I would like to give you this little information—it won't take me a minute—where they are calling upon us for help. At Douglas Aircraft we have 12 men from our office—and this is in the process of increase now—sworn in with sheriff's badges. In other words, we had an ordinance passed not long ago where a special sheriff's badge and a distinctive uniform is used by these different corporations who have asked us for help. Each one of these men is bonded. They are gone over with a fine-tooth comb. When we find their loyalty is unquestioned, and everything else is in order, then, at the request of the corporation, we swear them in.

I will give you, not the names of the individuals, but in addition to Douglas Aircraft, we are doing that with Bethlehem Shipbuilding, the Guy F. Atkinson Co., California Shipbuilding Co., which is down in the harbor, Columbia Construction, the Standard Oil Co., and department of water and power. We have a total of several hundred that are now actively engaged. Their wages are paid by these corporations, but their authority is given to them by the sheriff of Los Angeles County.

Within the next 6 weeks we will probably have anywhere from 500 to 1,000 more men sworn in, not paid for by the citizens but by the corporations themselves.

Senator MEAD. Now, then, you said there will be 500 more. We learned the day before yesterday that Douglas had 500 of their own doing police work in that particular plant.

Mr. BISCAILUZ. That is right.

Senator MEAD. It is fair to assume, then, if you take all the plants into consideration that the number affording protection by the plants runs into the thousands?

Mr. BISCAILUZ. There is no doubt about that.

Senator MEAD. That is all being paid for by the Federal Government, not by the plant itself, because that is all charged to the airplane program, and it is a direct charge on the Treasury of the United States. It is, in part, a contribution to the protection of the property and the citizens of the area. So the Federal Government has not only been very liberal in establishing plants and plant facilities and military establishments, but the Federal Government is called upon to pay the full share of policing within these plants, because it is all charged in the contracts to the Federal Government.

Mr. BISCAILUZ. I would like to state that we have in our territory alone, Senators, the Vultee, the new Douglas plant in North Long Beach—it is in unincorporated part of Los Angeles County—where there will probably be, in the fall of this year, thirty to forty thousand more people living in that substation area of ours, that would not have been there if it hadn't been for this increase. So that is another problem that we have to worry about, is taking care of the outside of the plant. In other words, our jurisdiction, I mean as far as practical work is concerned, doesn't go within the plant, unless called upon, but it is the sheriff's job to see that no sabotage or anything is done either, for these people going to or coming from the plants.

I would like to mention we have the civilian defense committees. I happen to be the chairman of Los Angeles County Civilian Defense Committee that is working with the State agency and the State, in turn, with the national set-up.

On the 13th of September the new State law will take effect which will give the powers to the State. The State emergency council will have to do with civilian defense. In turn, each county in California, where it is necessary, will have a county civilian defense—we have had ours going for some time—and then down through the cities. Next week the mayor of the city of Los Angeles, the representative of the State, and the sheriff will get together to coordinate our efforts. In other words, I feel, about a job like this, it isn't a matter of jurisdiction at all. We should work together just as if we were all in one spot.

The CHAIRMAN. In fact, you are going to have to have some sort of a coordinating authority to see that you do cooperate, or you won't successfully carry out the job.

Mr. BISCAILUZ. Yes, sir; we will have that on the 13th of September when the new law takes effect. The board of supervisors next Tuesday will have an ordinance before them where we are rebuilding our county civilian defense committee so we can work according to the modus operandi of the State set-up.

Then we have been assured that the national defense set-up will work through proper channels, come to the State chairman, the State chairman to the county chairman, and right on down through, without having any lost motion or clashing of authority, that we don't want here and haven't had.

Senator MEAD. There may be a little lost motion, Sheriff, there in the fact that you have a city police cooperating with your county police, but you haven't a State police that cooperates in like fashion with either your city or your county police, your State police being

just a highway patrol system, and not like the State police of Pennsylvania and other States.

Mr. BISCAILUZ. You see, Senator, there are 58 counties in California. We have been told by representatives from Washington who have come out here each time—I think Senator Wallgren the time he was here a few weeks ago mentioned this was a target center, right where we are now. But the highway patrol of California do a great job on the highways from the traffic standpoint.

Each city in Los Angeles County, Senators, have their own police department. Some have small traffic organizations. Some, like Pasadena, Long Beach, and Glendale, have better personnel. But the highway patrol, as you have mentioned, do help on the highways, but I think I can say for them, too, that the same situation exists there as it does with any organization that has to do with law enforcement or the protection of life and property, that they are undermanned. Naturally, as soon as you put on any more men—the people want these services, have asked for them—the tax rate is the next problem that has to be faced.

Senator MEAD. Well, Sheriff, in looking over the harbor the other day, we learned that there were some lumber yards and other activities there that had little or no protection. In one instance they had just one night watchman for 43 acres, who occasionally made the rounds of a very, very difficult terrain, where there were no lights, and the plant was in utter darkness, and sabotage would be very easily accomplished.

Is there any such case as that, in your estimation?

Mr. BISCAILUZ. Of course, I would like to state this: I have always felt that every one of us has all we can do to attend to our own jobs. In other words, people can find fault with what we are trying to do, because we are far from perfect. When it comes to anything other than what we do with the Navy, from an antisubversive standpoint, the policing of the harbor district has not been our problem, Senator, except to swear in men for corporations.

Senator MEAD. Of course, it must be somebody's job, Sheriff, either the chief of police, the sheriff, or the authorities of Los Angeles, to see that these dangerous situations are removed as quickly as possible.

They tell me that the Los Angeles Harbor is darkened at night, that it affords no protection, so far as patrol boats are concerned; there are no patrol cars doing duty along the docks—scout cars. That is a very bad situation. Surely, it is somebody's responsibility. There should be a minimum of protection, anyway.

Mr. BISCAILUZ. Senator, that would be a municipal responsibility.

Senator WALLGREN. In your position as chairman of this defense council—is that what it is?

Mr. BISCAILUZ. Yes, sir.

Senator WALLGREN. You are interested in that, too?

Mr. BISCAILUZ. Absolutely. In other words, when we have meetings, things of that kind would come up. Then, if things are inadequately taken care of, it would be the duty of our committee at least to recommend and suggest that certain things be done. I haven't, of my own knowledge, anything definite about the harbor, because we haven't worked there.

Senator WALLGREN. We just call your attention to the fact, for the record. We made a trip about Terminal Island. We found certain individual, privately owned plants properly protected with searchlights, illumination under the docks, and so on. It seems to me—I think it seemed to all the rest of us—that if a privately owned plant found it necessary to take those precautions, it certainly ought to be necessary that precautions be taken to protect other property lying in the area where the docks are dark, there is no illumination, and where the proposition lies wide open as far as sabotage is concerned. We are just calling that to your attention.

The CHAIRMAN. Disaster down there would put the whole harbor and the city of Los Angeles out of business. It ought to be somebody's responsibility. Whose responsibility is it to police that harbor on the Los Angeles side? Is that the municipal authority's responsibility?

Mr. BISCAILUZ. The Navy.

The CHAIRMAN. The Navy says they only go to the edge of the water, they can't go up the hill. If they catch a thug in the water and he gets up on land, they have no authority. Who has got authority?

Mr. BISCAILUZ. The Navy have, just as you say, up to that line, but the Navy, whenever they talk about the harbor, take those problems up with the city of Los Angeles. See what I mean?

The CHAIRMAN. Is the Los Angeles chief of police here? He hasn't come as yet, I don't think. The mayor hasn't arrived as yet.

It is somebody's responsibility.

Mr. BISCAILUZ. I don't want to evade anything except I am just trying to give you the picture.

The CHAIRMAN. We are not asking you to. We are trying to find out the facts so we can see what the remedy is.

Senator MEAD. Just to help the committee out, if you can, Sheriff, whose authority do you think it is to patrol the docks, light up the docks?

Mr. BISCAILUZ. That would be the city of Los Angeles, working with the Navy Department. That would be my opinion.

Senator MEAD. If they found an industry over there with inadequate protection of its own, whose authority would it be to see to it that that agency was checked up and that it cooperated? Whose authority would that be?

Mr. BISCAILUZ. I would answer it this way: If that condition exists in the unincorporated area, it would be my duty. I would say, then, it would be the duty of the constituted authorities of the city of Los Angeles to check up and see that those things are done.

Senator MEAD. We were given to understand, when we went around the harbor the other day, that there were some very flagrant instances of inadequate protection, and that it certainly was somebody's responsibility here to see to it that it was corrected.

If the Navy is given the responsibility of policing the harbor, that is usually subject to considerable criticism. Sometimes it is a bad precedent. It is only undertaken after the local authority has proven inadequate or has fallen down in its responsibility. While this is a very serious situation out here, and while the need of protection is grave, it occurs to me that the Navy should come in only after the

municipal authority and the local authority generally had made a valiant effort to correct every condition that deserved consideration.

If we find a harbor that is adequately protected in one instance or in one division or in one section, and it lacks protection in another section, then there must be some local difficulty. I think that all those difficulties ought to be corrected before the Federal Government steps in to take over the policing of the locality.

Mr. BISCAILUZ. Senators, Chief of Police Horrall is an old-time peace officer. I believe some of the things you brought up he would be in a very good position to answer, and, as far as he could, in his own power, I believe he would correct those things if they are existing.

Senator MEAD. Sheriff, I think it has been pretty well established, so far as the committee is concerned, that some C. C. C. protection for the aqueduct and power line areas, that was formerly here, be returned to the scene. What do you know about that situation?

Mr. BISCAILUZ. I will say this—I am now speaking not so much as sheriff but from conversations I have had with our chief forester and fire warden of Los Angeles County, and also one of the national representatives—if those C. C. C. camps could be augmented, rather than minimized, they could do a lot of good. I will tell you this: You know this is also a fire area. We have had some tough fires in Los Angeles County over a period of years, in southern California. Those kids, I want to tell you, gentlemen, have done yeoman service.

The CHAIRMAN. You don't think that C. C. C. expenditure has been wasted, so far as Los Angeles County is concerned?

Mr. BISCAILUZ. No; it has been a great thing.

Senator MEAD. That seems to be a Federal activity in which there would be no criticism. Unlike the taking over of the Los Angeles Harbor by a Federal authority, which is unusual, because they usually leave police work to the local police authorities, the sending in of a C. C. C. outfit to do reforestation, and to prevent the destruction of forests from forest fires, is an activity of the Federal Government that has already received the sanction of public opinion. It seems to me that at a time like this it is a mistake for the Federal Government to withdraw that protection. Therefore, it would be very proper and probably generally applauded if a recommendation were made by all the authorities here for the return of the C. C. C. camps. But before the local authorities recommend that the Federal Government, now pouring billions, probably before this emergency is over, into the California area, millions of which are going to be used for police work, step in and augment that expenditure, by taking over local police function, the local authority ought to bend every effort to do its adequate share, prior to that particular effort on the part of the Federal Government.

Mr. BISCAILUZ. Senator, I would feel very badly, as sheriff of Los Angeles County, if another agency would come in here to do the work that I am supposed to do under the law.

Senator MEAD. Naturally you would. It is bad business to invite the Federal Government to be your police officer.

Mr. BISCAILUZ. Martial law we would have no control over, that is different, but purely police functions should be handled by those whose job it is to do that particular work. That is why I say I am very, very anxious that nothing shall happen in the territory I have.

For the record, I want to state that since time immemorial it has been the policy of the sheriff's office to assist in incorporated cities in Los Angeles County, never going in there except when asked to assist, because that is the way we keep cooperation. In other words, I can say this advisedly, that tomorrow I could call a meeting of the sheriffs and ask the 45 chiefs in Los Angeles County to a meeting, and there wouldn't be an absentee, unless through sickness or something, because we are trying to work together. I am not trying to show any authority, but rather to work with them, rather than have them working for me as sheriff.

Senator WALLGREN. I would like to say, Mr. Sheriff, contrary to the thought expressed by Senator Mead, recently, right in the face of possible fire, I think two additional camps have been ordered closed along the aqueduct. I have protested to the authorities back in Washington just recently. As yet I haven't heard, but I think one of our jobs is to try to prevent the closing of additional camps during this stage, because, according to my records, we have today thirty-some camps left out of 150. The sore problem is that they have been removed at a time when we need them the most, just when the danger period is coming on.

Senator MEAD. I agree thoroughly with the sentiments that you express, but I still maintain that it is up to the authority here to insist that every plant provide adequate protection, so far as that plant is concerned, and adequate lighting facilities. When that is thoroughly accomplished, it seems to me that the local authorities ought to check every alien that lives in the vicinity of the harbor where defense production is vital. The municipality ought to go farther than that, because that hasn't cost them very much, by putting on some scout cars along the docks and some patrol boats along the harbor.

In view of the vast expenditure of public funds, it seems to me that the locality ought to be able to provide a few scout cars and a few small motorboats or patrol boats, and then check up on the various plants, and, if they are not affording protection, find out why. If they are reluctant to furnish adequate protection, they hadn't ought to participate in the defense program one iota.

Mr. BISCAILUZ. I would like to state, Senator, we have been checking for some time in the agricultural area as well as these target points, finding out, and have a very fine file on aliens. This city, of course, depends a great deal, from the agricultural standpoint, for vegetables and all that, on an alien element in Los Angeles County.

I would be very happy, if you gentlemen feel it is in order—

Senator MEAD (interposing). Sheriff, before I conclude, let me know something about this defense set-up. You have, in addition to the police authorities in the city of Los Angeles and the sheriff's office in the county of Los Angeles, a joint defense commission?

Mr. BISCAILUZ. Yes.

Senator MEAD. Tell me something about the joint-defense council.

Mr. BISCAILUZ. First, I would like to tell you about some of the auxiliary forces we have at our command. We have the sheriff's posse (a lot of people think it is only for parade purposes). mounted police officers, who have done good work in rescue work. We have an aero squadron made up of men who have been commercial fliers, some are men who have been early mail fliers, flew the air mail. We have these

men who either own their own planes or their planes are owned by the corporation for which they work. They have been organized about 8 years. During the last flood that we had, they made rescues. They took supplies and things into the mountains, and even landed an amphibian plane on the San Gabriel Dam, and did things far beyond the scope of their work. They don't cost the taxpayers of Los Angeles County a cent.

We have a sheriff's emergency reserve now with nearly 200 men—it is still being organized—who have purchased their own uniforms, purchased their own firearms. They drill every Monday night at the high school. They are to augment, not to take over—if trouble comes, where we need more help. These men are being trained so they can work with a seasoned officer, relieving some of the others for more important duties than they would have.

We have a communications reserve made up of 50 men who have made a hobby of communications and short wave. They are working with us. They have done a great job in surveying the mountainous part of Los Angeles. I could furnish those figures and locations where great service could be done by these men in time of strife and in time of trouble. Those, of course, don't cost anybody anything, except the individuals themselves.

We also have over 5,000 special deputy sheriffs who serve without pay, when called upon.

Now, what did you want me to follow with, Senator?

Senator MEAD. I understand you have some sort of a joint-defense commission here.

Mr. BISCAILUZ. Yes, sir.

Senator MEAD. Tell us something about the make-up of it, the personnel of it, the scope and authority of it.

Mr. BISCAILUZ. I will first have to give you, if you will allow me, the background of this. In 1936 we organized the Los Angeles County Major Disaster Committee. We found in 1929, when we had the St. Francis Dam disaster, the first catastrophe of proportion that we have had here—I was undersheriff at the time—we didn't have a uniform in our office. We were inadequately prepared for anything like that.

We got the American Legion, ex-service men's organization, the Red Cross, and took care of the situation there as well as we could, under the circumstances, but we learned from that.

Then along came the Long Beach earthquake. We learned some more from that. Then we had the flood of 1938, the Montrose flood, and the floods of 1939.

In 1936, we took up with the board of supervisors the matter of an ordinance being prepared, giving us the authority to cope with acts of God. It took about 6 months to sell the idea to all of the citizenry, because so many thought that this was going to be used in strikebreaking and all, but when they found this was an unselfish organization, there to protect life and property, we had no difficulty.

We went along with that until the President's proclamation about a year and one-half ago, when he put in the hands of all the constituted authorities in the country, from the United States marshals all the way down the line, the job of protecting and taking care of civilian defense. So, when that came about, we went to the board of

supervisors and asked that this ordinance, that allowed us all the latitude, scope, where we had agencies, the Army, Navy, Relief Corps, and all working with us on major disasters, be increased in scope so that the committee could take care of public enemies as well as acts of God. So that was done. The board of supervisors unanimously made the change, amended that charter. We have been meeting—we have had the industrial leaders here in Los Angeles County, the representatives of labor, the representatives of the Red Cross, representatives of health, sanitation—and have laid out a very extensive program to take care of civilian defense in Los Angeles County.

When the Governor of California, at the last session of the legislature, proposed the State set-up, which was passed and, as I mentioned before, will take effect on the 13th of September, we then found it necessary to amend this county set-up of ours to conform to the State set-up. As I say, after the 13th of September, we will be in a position, Senators, to work through the State agency.

The city of Los Angeles have their own, that the mayor can tell you about. It has been organized and will work with our county agency. I was just informed this morning that Mr. Graves is the agent for the State, and Mr. Page, representing the United States Government, wrote and asked me if the mayor and the sheriff would get together with them on the 2d of September and talk over plans of coordinating our efforts so there wouldn't be any lost motion.

Yesterday, or day before yesterday, we appointed George Converse as a county organizer of the aircraft warning service. Immediately the response was terrific. The meeting was in my office. He took over the job. I am telling you, gentlemen, in 2 or 3 days from now we will have Los Angeles County well on its way to complete organization for the aircraft warning service. That is being done for the Army. As soon as we do this, we put it in the Army's hands, and from then on they take over that responsibility.

Senator WALLGREN. Were you sheriff during that period of time when the aqueduct was dynamited by those people who were opposed to the action taken in condemning their property?

Mr. BISCAILUZ. That is a long story. I have been sheriff since 1932, but I was undersheriff for many years before that. So I have been in the sheriff's office—I entered the office in 1907 as a deputy. The aqueduct was brought into being around 1906. So I have been in the sheriff's office during those intervening years.

Senator WALLGREN. You recall something about what happened?

Mr. BISCAILUZ. Yes, sir.

Senator WALLGREN. You had a difficult time policing it, didn't you?

Mr. BISCAILUZ. Yes, sir. Of course, that, again, was not a metropolitan, but a bureau of power and light problem. You see, we swear men in for them. We are giving them the authority, but these men are working under their jurisdiction. As I just mentioned, we have a total of 87 men sworn in by our office for the department of water and power. I think it would be well to say that we are making, at the present time, a survey of the entire line to find out whether—

Senator WALLGREN. You mean the aqueduct?

Mr. BISCAILUZ. Yes, sir. The last time we got together, I think you, Senator Wallgren, suggested that something like that be done.

So we are working with Colonel Snell of the Army and will have a report on that in a short time.

Senator MEAD. I have only one suggestion, Sheriff. I think you are doing a good job, but it occurs to me what you need out here is a defense protection board with authority to go into every one of these plants, see to it that they cooperate to the fullest extent, see to it that the city and the various political subdivisions have cooperated, and to follow it up with constant and repetitious checks until such time as they do cooperate. Where they refuse to cooperate, they ought to be brought to the attention of the Federal Government.

Therefore, this commission ought to have authority and coordination rather than just a set-up that occasionally meets and discusses their common problems. They ought to have authority; they ought to coordinate; they ought to check these plants, and they ought to follow them up until every bit of the territory is properly or adequately protected.

It seems to me that a defense protective board for this particular area is a vital need. There seems to be spotty protection; it is good in places and it is lacking in other places.

I believe that, insofar as your agency is concerned, so far as your authority is concerned, you are doing a fine job. But there may be some plants; there may be some industries; there may be some municipalities that are not bending every effort to give the same uniform protection that is required under these conditions. The committee is very well satisfied that that is true insofar as the harbor is concerned. There it is rather spotty, good in places, and lacking in other places.

So, I think they need a real defense board out here that would coordinate and would be given sufficient power and follow-up authority to see that everything was done. I think you would find that the Federal Government would very quickly cooperate with you if you brought to their attention a plant seeking defense contracts and refusing to cooperate in the matter of protection of this area.

I think too, that the C. C. C. camp ought to be returned. I think that is a Federal agency that would be welcomed, and it would be doing a fine task. But I doubt very much whether the Federal authority ought to come in and take over your responsibility, or the responsibility that properly belongs to the city or to some plant.

Mr. BISCAILUZ. I can assure you, Senator, that we can, if it hasn't been adequately done, coordinate all the agencies in Los Angeles County that come within the scope of this county civilian defense committee. I would be very happy, also, if this committee would like me to, to make a further survey and then report to you as to what we find that could be further done in the way of more ample protection. Of course, you are right. We have authority, I have authority as sheriff, authority as chairman of the county civilian defense committee. I have full authority in my duties as sheriff, but as county chairman, like anything else, you have to conciliate, bring people together, rather than waving a big stick and telling them to do it. So, it is a campaign of education. What I am trying to do as chairman is to make people want to do these things rather than to make them feel that they have to. I think, so far, we are making strides in that direction. But, at the same time, I would

like to be in a position to be able to report to someone who would have the authority, if it is necessary to crack the whip, to crack the whip.

You mentioned about another agency. It would be easy enough for me as sheriff to furnish you anything within my power at any time, so you could keep advised as to what you felt should be done.

Senator MEAD. Sheriff, because of what happened in Brooklyn the other day, and what has happened before that, in other parts of the country, I think the time is past when we should, by education, seek the cooperation of agencies that may be enjoying this upsurge in our national defense economy, and to put the foot down, the heat on, and tell them that they either have to cooperate like those around them or they will be taken out of the picture.

The CHAIRMAN. I think that is going to come up. This committee has asked for a report on the C. C. C. from the C. C. C. headquarters in Washington. We will have that report shortly.

Senator WALLGREN. I want to straighten out another matter. The last time I was here I was misquoted, to a certain extent, I feel that I was, in promising troops to protect the aqueduct. Of course, that is out of line. The question was asked me whether or not the Federal Government would protect, with troops, this power line, and I said, "Well, if it were absolutely necessary, they might do so." We are not going to do that. We have to reserve our troops for other duties I just merely wanted to clear that up at this time.

The CHAIRMAN. You must distinctly understand that the Army is not a police force. The Army strength is to fight for the country. The police duty is the duty of the local people.

Mr. BISCAILUZ. In every way, Senator, we have sold the idea locally that the Army has its function just the same as we have.

The CHAIRMAN. That is all, Mr. Sheriff. Thank you very much. May I ask you to file for the record your organization charter?

Mr. BISCAILUZ. Yes. How soon would you like that?

The CHAIRMAN. Whenever it is convenient.

Mr. BISCAILUZ. We will furnish you with the complete set-up before you adjourn this meeting Friday.

The CHAIRMAN. Thank you very much.

Is there a representative of the Forest Service here? (No response.) Is Mr. Scattergood here?

Mr. SCATTERGOOD. Yes.

The CHAIRMAN. Will you be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. SCATTERGOOD. I do.

TESTIMONY OF E. F. SCATTERGOOD, ADVISORY ENGINEER, BUREAU OF POWER AND LIGHT,¹ DEPARTMENT OF WATER AND POWER, LOS ANGELES, CALIF.

The CHAIRMAN. Mr. Scattergood, we were discussing with you the other day the situation with regard to power and water as it affects this area, and we would like for you, for the benefit of our

¹ See also Exhibit No. 108, appendix, p. 1938.

record, to give us substantially the facts as you gave them to this committee, if you will, please. You said you would prepare a statement for us.

Mr. SCATTERGOOD. There is present Mr. Vogel, engineer, assistant to the operating-maintenance engineer of the bureau of power and light, who will present, if you please, that statement and answer any questions about it. The statement will show the lay-out of our electrical system, the location of the power plants and of the transmission lines from those plants, the six central receiving stations in the city, and the high-voltage interconnections between those stations, so if anything happens to one of them, the others may supply the power during the trouble that may exist at any of one of them, by means of two parallel—

The CHAIRMAN. Mr. Scattergood, I am rather of the opinion that that specific information as to location and the lay-out of the lines should not go into the record for publication.

What we are particularly interested in is a statement as to your ability to meet a situation that might develop should the principal power plants be disabled, or should the lines be put out of business by forest fire, or something of that sort. We are not so much interested in getting into the record the specific lay-out of your electrical system because that might be of use to somebody that wanted to put it out of business.

Mr. SCATTERGOOD. That is available and may be furnished to anyone.

The CHAIRMAN. Confidentially, the committee would like to have it, but not for the public record.

Mr. SCATTERGOOD. The statement that I made the other day was to the effect that our power sources are diversified and located at distant points, one from another; three steam plants distantly located with respect to one another, and water-power plants and transmission lines. The principal lines coming in from water-power plants come through the forest preserve in different locations, quite distant from one another.

The bureau of power and light supplies the service for the city uses and that of the inhabitants of the city of Los Angeles, and the Southern California Edison Co. outside of the city of Los Angeles, in this general part of southern California.

The Forestry Service, as indicated in a letter addressed to Senator Wallgren on July 17, seems very short in personnel at a time when it should be just the reverse, and unable to watch over, prevent, and put out brush or forest fires in California and also the Pacific coast generally, because of the withdrawal of C. C. C. camps, in large part and because of their personnel, in considerable degree, being in military service as volunteers or draftees. Further provision for increased personnel of the Forestry Service certainly is important.

Transmission lines going through the forests or other essential facilities that might be affected by forest fires are increased in hazard because of this lack of personnel over what it would otherwise be.

Our transmission circuits and our power plants are being guarded. The Boulder power plant is under the jurisdiction of the Department of the Interior and specially guarded. The training of these guards, and the way in which they are equipped with firearms, if it is agreeable to your committee, will be stated to you by Maj. R. R. Robertson. He

is an engineer of design construction in the bureau of power and light, but is designated by the general manager of the water bureau and of the power bureau, two general managers, as chairman of a committee on protection of our properties, both the water properties and electrical properties which supply the city of Los Angeles. I would prefer that he, if it is agreeable to you, be given opportunity to tell you, as specifically as you may desire, regarding that.

The CHAIRMAN. That is perfectly agreeable to the committee.

Mr. SCATTERGOOD. With respect to transmission-line interruptions, the sabotage cannot be very serious, especially as we have various transmission lines and our sources of power divided into five or six different sources and ability to carry on, with one of them lost to us.

Regarding Boulder, there are two sources in that respect, for the reason that we have transmission circuits coming two different ways, and the power plant is divided into two separate plants, one on the Nevada side and one on the Arizona side of the river, with separate outlet towers, and each plant with two separate penstock lines and two separate reservoir outlet towers. The water could be shut off at the towers if trouble occurred in the plants, and could be shut off in the plants if trouble occurred at the tower, so that there wouldn't be a rush of water doing damage, following anything that might happen.

The disturbance on a transmission line that might occur could be bypassed, at least temporarily, with wooden poles and cables, undoubtedly, within a day's time. Of course, such trouble would only relate to one of several transmission sources of power.

As to forest fires they might prove to result in, perhaps, 1 to 2 or 3 days' outage of some circuit or source. We have had serious fires and gotten along with only momentary outages, but had to replace some of the cable afterward.

It is, however, very important and desirable that provision for fighting fire and ample provision for protection against sabotage be made. We realize that, and we will appreciate any suggestion from your committee, and any assistance we may need, in addition to what we have been able to provide ourselves.

Of course, as stated the other day, in case of sabotage or the bombing of an electrical generator, that is a different story. It may take 6 months to repair serious damage to one of those machines.

There, again, we have many power plants and several units in each power plant, but we may need some of your assistance. We will appreciate your suggestions and we will undertake to follow them.

The CHAIRMAN. Thank you very much.

(A statement prepared by Mr. H. A. Van Norman, was marked "Exhibit No. 108" and appears in the appendix on p. 1938. A tabulation of reservoir and tank data was marked "Exhibit No. 109" and is on file with the committee.)

The CHAIRMAN. I see the mayor in the back of the room. If you will come up, we will be glad to have you make a statement for this committee.

Mr. Mayor, the committee has been in session since 10 o'clock, and the good judge who has lent us this courtroom is opposed to gentlemen and ladies taking a smoke in the courtroom. If it won't cause you any embarrassment, we will take a 5-minute recess and give everybody a chance to step out into the hall.

Mr. BOWRON. I will help them enforce the rule.

The CHAIRMAN. We will be back here at 11:20.

(The committee took a 5-minute recess.)

The CHAIRMAN. Gentlemen, the committee will come to order.

Mr. Mayor, this committee has started out with the process of swearing the witnesses, so I will have to do it to you.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. BOWRON. I do.

TESTIMONY OF FLETCHER BOWRON, MAYOR, LOS ANGELES, CALIF.

The CHAIRMAN. Mr. Mayor, we were discussing at some length with the sheriff the situation as it affects the protection of the area from activities that might put some of our national-defense plants out of business. We are particularly interested in the protection of the Los Angeles water front, as it affects the whole harbor and that lay-out down there.

After looking it over pretty thoroughly and discussing the matter with the naval authorities and with the Harbor Board of Long Beach, we were left under the impression that the Los Angeles section was not adequately protected. We would like to have a statement from you on that subject, if you care to make one, for the protection of the city of Los Angeles, for our own information and to clear up the record.

Mr. BOWRON. I think there will be no dispute in regard to that matter, Senator. We freely and frankly admit that the harbor is not adequately protected.

The CHAIRMAN. That is the remedy, Mr. Mayor?

Mr. BOWRON. I think that your committee made a personal inspection of the harbor.

The CHAIRMAN. Yes; a very careful one.

Mr. BOWRON. And I believe that Lieutenant Commander Higbee, of the Coast Guard, probably took you around.

The CHAIRMAN. Yes, he did.

Mr. BOWRON. I have from time to time received information from Commander Higbee and received some of his suggestions, and I think that he is as well informed as anyone I know of, about the conditions, and his ideas are practical.

The CHAIRMAN. He struck me as being very well informed on the subject.

Mr. BOWRON. I don't know what suggestions or recommendations he has made, but I think the city would be glad to cooperate in carrying out any recommendations that he would make. As you probably know, our police department is hardly adequate to cope with that situation.

The CHAIRMAN. How large an area do you have here under your police protection of the city of Los Angeles? What is the area?

Mr. BOWRON. It is a very large area. The exact area would hardly indicate the many problems that are connected with police administration because we have so many different districts. We have in excess of 450 square miles—the largest city in America.

The CHAIRMAN. What is the total number of your police department? How many policemen do you have?

Mr. BOWRON. Approximately 2,500.

The CHAIRMAN. You have as great an area as the city of New York with 25,000 policemen.

Mr. BOWRON. Well, we do not have quite the population.

The CHAIRMAN. That is coming, though, isn't it, Mr. Mayor? I have a Senator from New York here, and I just wanted to impress on him the comparison between the city of Los Angeles and the great city of New York.

Mr. BOWRON. We are not pressing New York yet, but come out in 10 years, Senator Mead, and we will show you a great city.

The CHAIRMAN. To get back to our subject, what is the remedy, in your opinion, for meeting this situation which everybody, including you, seems to think is an inadequate one from the protection standpoint?

Mr. BOWRON. Undoubtedly, we should have more fire-fighting equipment, probably another fireboat. The city at this time does not have funds to acquire the needed equipment. For normal times, we believe that the harbor, in that connection, is pretty well protected.

The CHAIRMAN. For normal times, that probably would be true, but this is not a normal situation. The only reason this committee is out here is because the situation is not normal.

Mr. BOWRON. We believe, also, that the police department should establish a patrol system in the inner harbor. We have been discussing that, planning it. Unless some other plan should be suggested, that is more practical as, for instance, the suggestion that the Navy take over the direction of the patrolling and protecting of the inner harbor, it is our expectation to acquire at least three patrol boats.

The CHAIRMAN. I think the Navy will be very happy to hear you say that.

Mr. BOWRON. Well, we have discussed the matter with Captain Coffman and other representatives of the Navy, and I think we are all agreed that that is necessary. We believe that we should supply a more modern police and fire signal system in the harbor area.

We believe that we should have somewhat better coordination between the guards in the employ of our harbor department and the police department, so that the guards may actually do police work. At the present time they are not armed.

Then we feel that there should probably be more patrolling on shore by our police force at the harbor. We recognize what should be done but, at the the same time, there are limitations to what can be done. The city of Los Angeles has a limited tax rate, fixed by our charter. During the past 10 years—I don't like to advertise this but it is a fact—the assessed valuation within the city of Los Angeles has decreased something over \$600,000,000, which has decreased—

The CHAIRMAN (interposing). That is true, Mr. Mayor, in every metropolitan area. You are not by yourself.

Mr. BOWRON. It has decreased the maximum amount of our income from tax sources, so there is a distinct limitation as to what can be done and, at the same time, render the ordinary services to the people of the community. We will be very glad to cooperate with any of the Federal or other agencies in working out the problem, and be sure that we will do all that we can, within the limit of our resources.

Senator MEAD. Mr. Mayor, we appreciate the proposed plan you have for the future, which entails better harbor protection and better plant protection, but there are requests pending before a number of Government agencies for the expansion of their present facilities, which will entail the expenditure of millions of dollars here in the harbor of Los Angeles and in the approximate vicinity of Los Angeles.

Having one specific case in mind, and that pertains to one of your shipyards which now has about 10 or 12 ways, it is my understanding that an agency in Washington is recommending that it be expanded by adding 6 or 8 additional ways, which will mean the expenditure of millions of dollars.

In the vicinity of this plant there seems to be a regular blackout at night. There are a number of lumberyards and plants where there is inadequate protection. We get this information from Government sources. It will be rather dangerous for the Government—perhaps it will be recommended to the Government that it not be done—to increase by millions their expenditure here until such time as this proposed plan which you have in mind, of adequate protection, is really an accomplished fact.

Surely, if the Government will appropriate millions of dollars for needed facilities, and if out of that appropriation will come the cost of plant protection, plant policing, that should be augmented by a system of adequate protection provided by the locality, and it hadn't ought to be in the future. It ought to be forthcoming immediately, with the expansion.

We were told by authoritative Government sources that the Los Angeles Harbor was inadequately patrolled, that it was a danger spot, and that the harbor presented one case of adequate protection on one side of the harbor and, immediately across the harbor, a very dangerous case of inadequate protection. All that it requires, we are told, is adequate lighting facilities, several small police boats that will patrol the harbor at night, and two or three scout cars that will cover the shore line in the evening or throughout the night. That doesn't seem to be a very heavy expenditure of money.

As a said to the sheriff, a real defense board, with authority to check up these plants, to insist that they cooperate and coordinate in the defense effort, augmented by a few police cars and a few patrol boats, would do a fine job. That hadn't ought to be in the future. We want to see this giant, expansive defense program go ahead now, but we would like to have it go ahead where the protection would be instant. Don't you think that could be provided without delay?

Mr. BOWRON. Senator, to the extent you have indicated, I can give you reasonable assurance that that will be done. That is our present intention, doing that just as soon as we can find the necessary boats and man them. That can be done forthwith.

But there has been some discussion of the possibility of the Navy going ahead and assuming to take charge of the protection in the inner harbor. Just as soon as we are told that that program will not go forward, we will go ahead. I can give you assurance of that.

Senator MEAD. Have you a fire boat now in the harbor?

Mr. BOWRON. Oh, yes; we have two of them.

Senator MEAD. You have two of them?

Mr. BOWRON. One quite large.

Senator MEAD. Have you a police boat, or more?

Mr. BOWRON. No; there has been a boat that has been operated jointly by the police and fire departments, but it is too large. We need a small scow to get around.

Relative to the subject of lighting, that is being taken care of and will be done under the direction of our harbor department.

Senator MEAD. What about checking these various plants and lumber yards to ascertain whether or not they are cooperating, to find out whether their protection is adequate?

Mr. BOWRON. That is being done.

Senator MEAD. We were told that there was one rather large lumber yard out there with just one night watchman covering some 43 acres. If that plant was checked, it would be determined, I think, immediately that that was inadequately protected. So, it occurs to me that a great deal can be done without a large outlay of public funds, providing we had some coordinating authority, including not only the city of Los Angeles but the county and the other municipalities that would really tackle the job with authority and follow it up and check these plants and keep rechecking them, until such time as we are sure that every weak spot has been strengthened as much as possible.

Senator WALLGREN. I would like to say, Mr. Mayor, the request has gone ahead to Washington that the Navy Department be permitted to place that inner port in the sea-defense area. Talking the matter over yesterday with Admiral Blakeley, he mentioned that fact.

The CHAIRMAN. That still doesn't relieve the city of police protection. The city would still have to provide the police protection for the harbor, even if the Navy takes it over as a naval responsibility, so far as the harbor is concerned. The policing of the harbor will have to be done by the city of Los Angeles. So you still have to furnish those patrol boats and necessary patrol cars if you are going to adequately police that section down there.

Mr. BOWRON. Well, I can give you reasonable assurance that that will be done. It was rather my understanding that, so far as the patrolling in the harbor area, other than on shore, that would be done by the Navy, but if that—

Senator WALLGREN (interposing). Anyway, you can work out a system in cooperation with the Navy. It will be far better than what you have done.

Mr. BOWRON. We will work with the Coast Guard, Navy, or any other agency.

The CHAIRMAN. Any questions?

Senator MEAD. No. I feel very serious about this situation, Mr. Mayor. I know that we need the defense production that can be provided by your present plant and by your expanded plant. I feel so serious about it that I may be constrained to bring the matter to the attention of the agencies in charge in Washington and to make some suggestions to them that would not put this matter off or plan it on a future time when you would be satisfied that the Navy wouldn't do it, and the Navy would be satisfied you wouldn't do it.

I feel that, as an individual or as a member of the Senate, in addition to my membership on this committee, this is a very serious

threat, and something should be done. I don't know just what action I will take, but it strikes me as something that needs immediate attention.

I don't go along with the idea that something is going to be done based upon this or based upon that action by any other agency. There is a responsibility that rests with the locality. Unless that is done, and done immediately, then I think I should hesitate to expand the facilities in this area until decided action was taken.

The CHAIRMAN. The committee would have to recommend that no further expansion be made here by the Federal Government unless that situation is met, because it would be perfectly foolish for us to recommend to the Federal Government that they invest further billions in this neighborhood, if there is a possibility that it is going to go up in smoke or in explosion because it is not adequately protected. That is a very dangerous situation down there. I don't think it could be much worse.

Senator MEAD. The Federal Government has made a mistake, in my judgment, in withdrawing C. C. C. protection. That is a matter which the Federal Government has a duty to continue. But this question of the protection of plants and facilities in the harbor is another matter altogether.

When we are providing in one airplane industry a sufficient amount of money for the appointment of a police force of 500, all of which comes out of the Federal Treasury, then there is some need for cooperation on the outside that will show an appreciation of that expenditure.

Mr. BOWRON. We appreciate the expenditure but we have a practical problem, because the expenditure doesn't increase the income of the city. The entire income of the city is necessary to provide normal services. We will go just as far as we have money to pay for it and will be glad to do it, but you can't expect the impossible, beyond the practical administration.

Senator WALLGREN. The defense program does bring in, you might say, added revenue to the city.

Mr. BOWRON. To the community but not to the city. You see, our principal income is from tax sources, and that is based upon assessed valuation of property. We have not had an increase in assessments; rather, a decrease.

Senator WALLGREN. Are these plants on your tax rolls?

Mr. BOWRON. Not during the current fiscal year.

Senator WALLGREN. I see.

Mr. BOWRON. But I can assure you, gentlemen, that the city will spend all of its money, all that it has available, to provide adequate protection at the harbor.

The CHAIRMAN. Thank you, Mr. Mayor. That is all.

We took the statement of one of your engineers and put in the record, Mr. Scattergood, and you said you had another engineer here who was desirous of making a statement for the record. Is he here?

Mr. SCATTERGOOD. I understood, Mr. Chairman, that you preferred that that outline of our system be handed to your committee and not put in the record.

The CHAIRMAN. That is right.

Mr. SCATTERGOOD. And I think you are right about it.

The CHAIRMAN. That would be confidential.

Mr. SCATTERGOOD. The other statement I spoke of was regarding our guarding, by Major Robertson.

The CHAIRMAN. If you will hand us that statement of yours we will see that it is adequately taken care of, but I don't think it should be made a matter of record.

Mr. SCATTERGOOD. That is quite right.

TESTIMONY OF E. F. SCATTERGOOD, ADVISORY ENGINEER, BUREAU OF POWER AND LIGHT, DEPARTMENT OF WATER AND POWER, LOS ANGELES, CALIF.—Resumed

Mr. SCATTERGOOD. I do want to say this to you, as I said the other day: We have an ample power supply. We are offering large blocks of power in this southern California community for basic industries.

Senator WALLGREN. At what rate are you offering that power?

Mr. SCATTERGOOD. It depends on the location. Right here in the city it is 3 mills per kilowatt-hour. At Boulder or up in the Owens Valley it would be considerably less, nearer the power plant.

Senator MEAD. Mr. Scattergood, what is the rate you charge for residences here in the city of Los Angeles?

Mr. SCATTERGOOD. The base rate is approximately 4 cents, and, after the first block of approximately 30 kilowatts, if I remember correctly, it drops to 2½ cents, and then to 2, and to seven-tenths of a cent for water heating in residences.

Senator MEAD. That is a very low rate. I have always understood that it was an exemplary system. Much of the credit, I believe, goes directly to you. If we could get the kind of protection now from the Police Department and the police force of Los Angeles that would compare with the brand of service that you produce and give to the people, this would be one of the most attractive areas, from the national-defense standpoint, that we have. The sheriff is doing a fine job in the county, but there is a little weakness out here in the harbor.

Mr. SCATTERGOOD. I am sure that, after your pointing this out as you have, it is appreciated by the mayor and all of us, and that it will be done, unquestionably.

Senator MEAD. And you see to it that a little of that juice that you produce is used out there on the harbor and around those plants and lumber yards.

Senator WALLGREN. Out at the docks.

Mr. SCATTERGOOD. In lighting them?

Senator MEAD. Yes.

Mr. SCATTERGOOD. All right, sir. I will certainly do it.

Senator WALLGREN. You will get a little business there.

Mr. SCATTERGOOD. Thank you.

The CHAIRMAN. Mr. Kelley, did you have something further you wanted to put in the record? We have made a record for you I think that is adequate,¹ and the committee doesn't need to be convinced any further. If you have a statement prepared that you would like to put in the record——

¹ See supra, pp. 1790–1791, for Mr. Kelley's previous testimony.

Mr. KELLEY. It will only take a few minutes.

Senator MEAD. You are only taking a chance on spoiling a good case. We are all for you.

Mr. KELLEY. Maybe not.

TESTIMONY OF GEORGE L. KELLEY, PASADENA, CALIF.—Resumed

Mr. KELLEY. I do feel that what we have presented so far has met with the approval of both Senator Wallgren and Senator Mead, and we appreciate it thoroughly but—

Senator MEAD. And the chairman joins us in it. We feel the Government is deserving of criticism in taking the C. C. C. outfit out of a very strategic location.

Mr. KELLEY. My only reason for coming over to see Senator Wallgren last Thursday was that we had an immediate problem there. We learned that the camp was going out on the 15th, and we wanted to head that off.

Senator WALLGREN. Have you heard anything about it recently?

Mr. KELLEY. The camp has simply been moved up to Dalton. We have arranged to hold the equipment here so it can be immediately moved. It is only a matter of moving out of one house into another one.

Senator WALLGREN. We will do what we can to help you.

Mr. KELLEY. The only thing I want to add to it is in 1934 we had a fire, followed by a flood in 1938, that caused at least \$6,000,000 damage in that one little canyon. That is where the power line comes through.

There is \$1,170,000 going into the Upper Arroyo Seco as the first fire-prevention area in the United States. The work that goes in there is going to be spread all along our mountainside up there. It is going into San Gabriel next. That was Mr. Wallace's, Secretary Wallace's pet plan when he was Secretary. It is to follow up to San Bernardino. This one little point, strategic point, is the crux of the whole thing. That is where the power line comes in. Your airplane plant and everything else isn't worth a hoot—

Senator WALLGREN (interposing). That is where they are taking the camp out—

Mr. KELLEY. They are not worth a hoot.

Senator WALLGREN. How many men did you have in the camp?

Mr. KELLEY. They only had 60 at the last minute. It carries 195, and we had 200 men on the 15th ready to go in there immediately. They could have gone in that day.

The CHAIRMAN. You don't have to sell this committee any further.

The committee will recess until 2 o'clock when it will hear naval witnesses.

(Whereupon, at 11:50 a. m., the committee recessed until 2 p. m., Thursday, August 21, 1941.)

AFTERNOON SESSION

The committee met at 2 p. m., pursuant to noon recess, in courtroom No. 8, United States Courthouse, Senator Harry S. Truman presiding.

The CHAIRMAN. The committee will come to order.

Admiral Blakely, I believe you will be the first witness.

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Rear Admiral BLAKELY. I do.

TESTIMONY OF REAR ADMIRAL CHARLES A. BLAKELY, UNITED STATES NAVY, COMMANDANT, ELEVENTH NAVAL DISTRICT, SAN DIEGO, CALIF.

QUESTION OF ADEQUATE PROTECTION FOR THE LOS ANGELES HARBOR AREA

The CHAIRMAN. If you will just have that seat and give the reporter your full name and rank and connections here, I will appreciate it.

Rear Admiral BLAKELY. Charles A. Blakely, rear admiral, United States Navy, commandant, eleventh naval district.

The CHAIRMAN. Admiral, we are particularly interested in this defense area here, particularly the Los Angeles Harbor area. Just what authority does the Navy have in that set-up now, with regard to policing it?

Rear Admiral BLAKELY. The Navy has no authority on the inner harbor. We have a Presidential defense order covering the outer harbor, and that was particularly for the defense of ships at anchorage and Navy property in that area.

The CHAIRMAN. There is nothing you can do, then, for the protection of the inner harbor under present conditions?

Rear Admiral BLAKELY. Not under present conditions.

The CHAIRMAN. And do it legally? If that were made a naval-defense area, what, then, would be your authority?

Rear Admiral BLAKELY. We have recently been called upon to comment on an order, sent out from Washington, an Executive order to be issued by the President, that would give general authority covering the water front in the inner harbor.

The authorities delegated are general, but the last paragraph of that prospective order calls upon all of the civil authorities to lend all practicable assistance to the Navy in protecting that area.

The CHAIRMAN. It would still be necessary, then, even if you had all that authority, for the local authorities to do their customary and regular police duty?

Rear Admiral BLAKELY. I would expect that 100 percent. I would say that if that order came into my hands, I would immediately require the assistant commandant to call a meeting of all the oil people and all people represented in that area, with the idea that we would go to the meeting with certain requirements, in the hope that they would mutually agree to the propriety of these requirements, or, if they were not proper, that they would help us in getting the proper requirements for the handling of gasoline, oil, and inflammables, so that we would have a mutual understanding and mutual cooperation in this project.

Now, if one out of the hundred didn't cooperate, didn't want to cooperate, then we could control him by not permitting ships to go to that pier, or to deny him access to the water. Of course, we would then have to take means to see that any property that he might have, that would be a menace, was removed from the water front.

We are very much interested in that area because the Roosevelt Base and the shipbuilding concerns that are working on Navy property and, of course, the oil itself and the gas—

Senator WALLGREN (interposing). What type of policing would you do, Admiral, as far as the docks themselves were concerned?

Rear Admiral BLAKELY. Well, we would have to work that out through Captain Bennett of the Coast Guard. I can't give you in detail now all the things that would be required.

Senator WALLGREN. Are there any ports that you know of that compare with this one, that have been handling—

Rear Admiral BLAKELY (interposing). I don't know of any port in the world that is similar in all essentials to this port here, that is when you consider that oil is pumped out of the ground or alongside the harbor, and that it is stored almost throughout the length of the water front in large tanks and in large quantities. That is unnecessary, in my opinion. I think that the oil companies agree that that is, and that it can be obviated. An accident, you know, can do as much damage as a saboteur.

If we remove those, or empty the tanks around the water front, particularly those that have no drainage sumps around them, and require them to empty the pipe lines of gasoline, after an oiling, we will then have obviated 90 percent of the danger to that harbor.

Senator WALLGREN. Would the Navy be in a position to direct that piers be lighted and afford protection in that manner?

Rear Admiral BLAKELY. I don't know whether they would or not, but I am inclined to believe that I would do it in cooperation with the other authorities. I know that all of us together have all the requisite authority. Whether I would have all that authority myself or not, I don't know. But the sheriff and the mayor and the civil authorities and Captain Bennett and his crowd, combined with the Navy, will have 100 percent authority down there, if the President issues that order, and I think we would agree that we had that. The companies are very much interested in this proposition, too, and I believe they would cooperate.

Senator MEAD. For the record, Admiral, what would you say about the protection in the harbor now?

Rear Admiral BLAKELY. Well, I don't know that I could say anything particularly. I believe Captain Bennett of the Coast Guard could give you more pertinent information than I can.

Senator MEAD. If there are any hazards there that menace the naval interests, what power have you to remove those hazards?

Rear Admiral BLAKELY. I haven't any at present. I can keep the crowd from coming aboard, from coming on the reservation, but I have no authority over a gas tank that is 15 feet outside the fence. I have asked the President to include in the boundaries of this harbor the limits up to the mean high watermark. Of course, I don't know what good that is going to do us, but I know in questions of law sometimes that is considered to run some distance back from the pierhead, and it may be a loophole for us to use a little authority. It is not my intention to go out there and start using authority. I would try, first of all, to get cooperation.

Senator MEAD. What about the investigation of what might be termed suspicious persons outside of the naval reservations and in that vicinity?

Rear Admiral BLAKELY. Well, that, I should say, should be handled by the police and the sheriff's office.

Senator MEAD. And unless and except that they are actually on the reservation, you have nothing to do with them?

Rear Admiral BLAKELY. I wouldn't have anything to do with them. We now have some guards on the bridge but they are deputy sheriffs. I don't know whether they have actually been sworn in yet or not but they are to cooperate with the sheriff's office.

Senator MEAD. Who do these guards work for? Who pays them?

Rear Admiral BLAKELY. Well, the Navy will pay them.

Senator MEAD. They are enlisted men?

Rear Admiral BLAKELY. No; they are guards employed for the purpose of guarding the bridge.

Senator MEAD. Civilians that you employ for this particular purpose?

Rear Admiral BLAKELY. Yes, sir.

Senator MEAD. The bridge, of course, is outside the property of the Government.

Rear Admiral BLAKELY. It is outside. It leads over to Terminal Island, and over the bridge all traffic goes.

Senator MEAD. So, the guarding of the bridge is of benefit to all concerned out there, and yet the Navy is putting these guards to work and paying for them?

Rear Admiral BLAKELY. It is the only source of supply. We tried every way possible to get guards for the bridge but nobody would provide them.

Senator MEAD. The guards are essentially necessary but the local government, the local authorities would not provide them?

Rear Admiral BLAKELY. They could not or would not. As a matter of forethought, foresight, we did it.

Senator MEAD. Which indicates that you have gone as far as possible in providing proper protection.

Rear Admiral BLAKELY. And by seeing that their (the guards) authority spring from the civil rather than the military source. I think it is much easier to handle it that way and much better.

The CHAIRMAN. Admiral, have you any remarks you want to make on the housing problem? We are going to hear Captain Mathews on that, but if you have any remarks you want to make on it, we will be glad to hear from you.

Rear Admiral BLAKELY. No; I haven't anything that would be of benefit, in view of the fact that Captain Mathews is going to give us all the details.

The CHAIRMAN. Thank you very much, Admiral.

Captain Bennett, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Captain BENNETT. I do.

TESTIMONY OF CAPT. L. L. BENNETT, UNITED STATES COAST GUARD, COMMANDER, LOS ANGELES DISTRICT COAST GUARD

The CHAIRMAN. Captain, if you will give your name, rank, and authority to the reporter, I will appreciate it.

Captain BENNETT. Yes, sir; Louis L. Bennett, captain, United States Coast Guard, commander, Los Angeles District Coast Guard.

The CHAIRMAN. Captain, you are in command of the Coast Guard at the Los Angeles Harbor?

Captain BENNETT. Yes, sir; from the mouth of the Santa Maria River to the Mexican border.

The CHAIRMAN. Will you give the committee a description of the Los Angeles Harbor, for the record?

Captain BENNETT. A description of the harbor?

The CHAIRMAN. Yes, sir; and the authority of the Coast Guard in regard to its safety.

Captain BENNETT. Well, briefly, the Los Angeles Harbor includes anchorage inside of the outside breakwater and a waterway that has two or three branches, the main one being the Cerritos Channel which separates Terminal Island from the mainland.

There are various basins, known as the West Basin, the Watchorn Basin, and estuaries, you might call them. The place is almost completely covered by docks, shipyards, loading terminals. Most of it is controlled by the Board of Harbor Commissioners, which is the function set up, I believe, by the State. I think that the city has no authority in that regard. I think they exercise paramount jurisdiction.

The CHAIRMAN. Was this harbor carefully planned when it was laid out?

Captain BENNETT. I don't believe that I am competent to answer that.

The CHAIRMAN. I was informed yesterday that the harbor just grew, sort of like Topsy, that there was no plan.

Captain BENNETT. There are some indications of that; yes, sir.

I think you asked the question, also, the second half of your first question, about the authority of the Coast Guard.

The CHAIRMAN. That is right. I would like to have the authority of the Coast Guard for policing purposes.

Captain BENNETT. You are mainly concerned with this harbor?

The CHAIRMAN. Yes, sir.

Captain BENNETT. It arises from three different sources. The law gives the Coast Guard the authority to enforce all Federal laws on the high seas and navigable waters of the United States which, of course, includes the harbors.

The second authority, as far as harbors is concerned, is the control of the anchorages. The allocation of anchorages and the definition of their limits is a function of the Secretary of War. He establishes rules, which he has done for Los Angeles Harbor, for the outside anchorages—those are the ones immediately inside the breakwater—and he calls upon the Coast Guard to enforce them, just as we enforce laws for almost all of the other Federal departments. That is only, however, in regard to those anchorages.

The third, the part of the law which gives us control over the movements of all merchant vessels in the harbor, whether they are in the anchorages or in the inside channels, is the Espionage Act of 1917, which the President reinvoled about a year or so ago.

Under that he is authorized to turn over the control of harbors to the Secretary of the Treasury, and he in turn designates the Coast Guard as the enforcement agency. That gives us the power to regulate movements of all merchant shipping that is in the harbors, to require them to take certain anchorages, when we think

that the safety of the harbor is endangered; if they don't do it, to stop their loading at the docks and make them leave the dock and anchor outside; to remove from any vessel any person whom we do not believe should be on board, and to enforce all the other things, minor laws like the Oil Pollution Act, and things of that kind.

The CHAIRMAN. That is, you are the enforcement agency for all the Federal laws affecting harbors?

Captain BENNETT. Yes, sir. Particularly under this Espionage Act, we have additional authority that is rather sweeping, that gives us complete control over any merchant shipping, foreign and domestic.

The CHAIRMAN. How far inland does that authority extend?

Captain BENNETT. As far as the navigable waters go.

The CHAIRMAN. You have no authority on the land itself?

Captain BENNETT. No, sir. The only time that the Coast Guard can function on land is in the case of a violation of the customs laws, which is initiated on the water, and those committing the violation escape to shore, whereupon they can be pursued. But that is the only case. We have no authority on the land.

Senator WALLGREN. I think, Captain, you might describe the seriousness of the situation down there, as far as the port is concerned.

Captain BENNETT. We believe that, considering the importance of the port and the manner in which the lumber yards and oiling plants, various industrial places like shipyards, overhaul plants, are grouped together, a fire in one of them, under average weather conditions, would spread rather rapidly. We believe that there is good reason for considering the element of sabotage. We think that it is possible. For that reason, we maintain a patrol of the harbor and have been doing it for 2 years. We have 7 boats on that duty now. We will have 2 more in about 2 days. We will get delivery of 3 new Coast Guard patrol boats in December. I want to bring the total patrol force in the harbor up to 15 boats. Those boats vary in size from 80 feet in length to 35 feet and carry from 4 to 8 men. They are on continuous duty in the harbor, day and night.

Senator MEAD. They don't carry any fire-fighting equipment, do they?

Captain BENNETT. No, sir. The only fire-fighting equipment they carry is to put out fires on board, gasoline fires—foam type extinguisher and the regular standard equipment that all of our small craft carry.

Senator MEAD. They will patrol the harbor and, if they discover anything wrong, fire or anything like that, sound the alarm and call for help?

Captain BENNETT. Yes, sir. They are equipped with radio-telephone. All of them are in constant communication with our station.

Senator MEAD. If sometime in the future, during the course of this emergency, the city of Los Angeles decides to put on some additional fire-fighting and police-patrolling equipment, you will be in touch with them so as to bring them to the spot or the site of the difficulty?

Captain BENNETT. Yes, sir.

Senator MEAD. But right now you probably have a difficult time finding the Los Angeles patrol boat.

Captain BENNETT. You mean the fire patrol boat?

Senator MEAD. No, the police patrol boat.

Captain BENNETT. I don't believe it has been operating for some time.

Senator MEAD. That would make it more difficult.

Captain BENNETT. Yes, sir.

I might say that we have suggested to the city authorities, for the enforcement of their own civil laws, that is during their normal operations, not considering this emergency, they should have an adequate water patrol of the harbor, as they have in all large cities.

The CHAIRMAN. The mayor assured us this morning he was going to try to institute that water patrol.

Senator MEAD. Having the responsibility, have you reported the hazard as fully as possible to the authorities in Washington?

Captain BENNETT. Yes, sir. It is well known to the Commandant of the Coast Guard, and he has taken all possible steps to correct it and to give us all the craft that we need.

Senator MEAD. And from the number of vessels you have just explained to the committee, that you have and that you are securing, the Coast Guard will be doing its proper share. Would you say that is correct?

Captain BENNETT. Yes, sir.

Senator MEAD. Therefore, if there lacks any protection, it is a case for a local government rather than for the Federal Government to look into?

Captain BENNETT. Yes, sir. I would like to make it clear that we don't feel any responsibility for the docks themselves. Our concern, of course, is mainly the shipping in the harbor. We have a very vital concern with that.

Senator MEAD. The docks and terminal facilities is a matter for the local government?

Captain BENNETT. For the civil authorities; yes, sir.

Senator MEAD. Of course, it would be difficult to have any shipping at all if you found that the docks were gone some morning, as a result of inadequate protection.

Captain BENNETT. Quite so.

The CHAIRMAN. Thank you, Captain.

Captain MATHEWS. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Captain MATHEWS. I do.

TESTIMONY OF CAPT. JAMES T. MATHEWS, C. E. C., UNITED STATES NAVY, PUBLIC WORKS OFFICER, SAN DIEGO, CALIF.

NAVAL DEFENSE HOUSING PROGRAM IN SAN DIEGO AND LONG BEACH¹

The CHAIRMAN. Captain, we were in San Diego yesterday on a tour of inspection of the national-defense activities and were somewhat impressed with the housing situation in San Diego. Will you explain to the committee the necessity for the naval construction of housing

¹ In this connection see also supplemental statement of Captain Matthews, appendix, p. 1946.

in San Diego, and the cost of obtaining the land and the construction cost, and such other things in connection with that housing program as you think would be of interest to this committee?

Captain MATHEWS. Yes, sir. Over a year ago, probably 18 months ago, the Bureau of Yards and Docks, which is the public works construction bureau of the Navy Department, asked the Commandant to survey the needs in San Diego for a certain number of defense-housing units which might be assigned to married enlisted personnel attached to the shore establishments in the eleventh naval district, and also to dependents of naval personnel who are attached to ships based on the ports of Los Angeles and San Diego, and also to consider the needs of civilians attached to the local shore establishments.

The Commandant immediately requested the commanding officers of the various shore establishments and the commanders of the various units of the fleet based in San Diego and Los Angeles to furnish him with information on which to base a reply to the Navy Department. Within a few days those replies came in from those contacted, and they indicated the need in San Diego for about 1,500 units for married enlisted personnel, and in the San Pedro-Long Beach area of about 1,000 units.

The CHAIRMAN. So it was not possible to obtain those from the privately owned housing in San Diego?

Captain MATHEWS. No; we couldn't get it. We wanted to get first-hand information from the men themselves because they alone could tell us whether they were satisfied with the places where their dependents were then living and whether they wished to take advantage of low-cost housing which might be furnished later under governmental appropriations.

As a result of that survey, the Commandant made a report to the Chief of the Bureau of Yards and Docks, giving the estimated number required, both at San Diego and the Long Beach-San Pedro area.

Shortly after that the second supplemental defense bill was passed and enacted into law, and from the appropriation of \$150,000,000 carried in that bill, the President allocated to the Navy Department certain funds from which the Chief of the Bureau of Yards and Docks authorized to be constructed in San Diego 1,200 units, in Long Beach 400 units—a unit consisting of one living room, two bedrooms, a bath, and a small kitchen.

Senator WALLGREN. Captain, right there, is that the source of your naval-defense housing? Is that where you get your money?

Captain MATHEWS. That is where we got our money; yes, sir.

Senator WALLGREN. You haven't added to that amount?

Captain MATHEWS. We haven't added to it.

Senator WALLGREN. You don't get it any other place?

Captain MATHEWS. No other place.

Senator WALLGREN. Those are the only funds being used for that purpose?

Captain MATHEWS. Those are the only funds we have utilized up to the present. Recently—

Senator WALLGREN. No connection whatever with any other housing unit of the Federal Government?

Captain MATHEWS. None whatsoever, but, as I started to say, recently the Federal Works Agency did intend to construct 600 addi-

tional houses in Long Beach from funds which it had secured under the Lanham Act.

Senator WALLGREN. There is, then, other naval-defense housing money.

Captain MATHEWS. There isn't at present.

Senator WALLGREN. Under the Lanham Act?

Captain MATHEWS. There isn't at present. Just today we were informed that project has been canceled.

Senator WALLGREN. You mean the Long Beach?

Captain MATHEWS. The Long Beach and San Diego project. It wasn't to go in either place. F. W. A. is going to use the money it had tentatively set up for the naval personnel in providing solely for civilian defense housing in Long Beach.

The CHAIRMAN. How many housing agencies are operating in this area?

Captain MATHEWS. Well, to my knowledge, there are at least three agencies, with various projects under those agencies.

Senator WALLGREN. They are the Department of Agriculture—

Captain MATHEWS (interposing). Department of Agriculture, which, I believe, has constructed at least three projects in San Diego.

Senator WALLGREN. Three separate projects?

Captain MATHEWS. Yes, sir.

Senator WALLGREN. We saw the dormitories, and we saw the trailer camp. What else have they got?

Captain MATHEWS. They have another set of dormitories off by the police station. They have a set of dormitories at Twenty-eighth Street and a trailer camp there.

Senator WALLGREN. How many units do they have over there?

Captain MATHEWS. I think they have 500 trailer units; I don't know how many exactly in the dormitory.

Senator WALLGREN. I mean in this other place we didn't see yesterday.

Captain MATHEWS. I really couldn't tell you, Senator. I haven't actually investigated that phase of it. At the time you were there before, we did get some information about the trailer camp and found out they had 500 trailers under contract.

Senator WALLGREN. Well, now, the Department of Agriculture's set-up over there, is that being utilized only for enlisted men?

Captain MATHEWS. No. That is open to any defense worker now.

Senator WALLGREN. Anyone working in an airplane over there, like Consolidated or Ryan?

Captain MATHEWS. Yes, sir. Only a few days ago it was opened up especially to civilian workers attached to naval stations and working on naval defense projects.

Senator WALLGREN. The project out there to the north of the city, the large project?

Captain MATHEWS. That is being done under the Public Buildings Administration, which is a part of the Federal Works Agency. I don't feel that I am qualified to give any details, but I do know, of general knowledge, that consists of approximately 3,000 units for married persons and several dormitories for single men.

Then, of course, as I have just given it, there are our own naval defense housing projects. Those comprise the three main govern-

mental agencies which have recently constructed defense housing in San Diego and Long Beach.

The CHAIRMAN. How did the Department of Agriculture get into the housing project for the Navy?

Captain MATHEWS. It didn't get in it specifically for the Navy. It is only recently that the Navy, not having enough housing of its own, asked permission for its civilian defense workers to have access to the Farm Security Board trailer camps and other houses there constructed.

The CHAIRMAN. The Farm Security Board, as I understand it, was organized for the purpose of helping farmers. I didn't see any farmers over there in their trailers.

Captain MATHEWS. I am not qualified to speak as to that.

The CHAIRMAN. It seems to me that Farm Security Board is clear out of its territory by coming down here and building houses for naval workers and for defense workers. We set up the United States Housing Authority for that purpose. I can't see where the Department of Agriculture gets into it.

I was somewhat intrigued when I heard the captain say that the Secretary of War had authority in the harbor and the Secretary of the Treasury had authority in the harbor, and I was just wondering what the Navy was organized for, in that case. I am wondering in this case what the Department of Agriculture is doing, sticking its nose into naval business.

Captain MATHEWS. I really couldn't answer that question.

The CHAIRMAN. We are going to find out.

Senator MEAD. They may require vegetable production by window box.

The CHAIRMAN. They would have to do something to qualify.

To get back to the subject, how did you obtain the land for the naval projects over which you had control?

Captain MATHEWS. For the two projects in San Diego we investigated several sites, and then we finally selected one site adjacent to the destroyer base, which seemed most feasible to utilize, on account of the fact that it was within easy access of the destroyer base, where there are large numbers of enlisted men on duty, who have many dependents; also the fact that the destroyer base is near the Twenty-eighth Street pier, which is utilized by the Navy when ships are actually at San Diego and it is convenient for the men on those ships to get ashore to their families. Likewise, it was convenient for the families themselves to get to town. It is only 4½ miles from downtown San Diego, about a 10-minute drive in a car or bus.

The second site, adjacent to the Marine Corps base and naval training station—

The CHAIRMAN. You bought that site after you located it, or did the Navy already own it?

Captain MATHEWS. We didn't own it. I was just going to give you the locations first. The second site, adjacent to the Marine base and naval-training station, was selected for the same reasons, because of ease of access. Also, it is a good building site except for some extra fill that we had to put in there.

After we decided that the first site was the best place to build on, we contacted the owners. It was one of the railroad companies

operating in San Diego. They gave us a price of \$23,560, as I recall. Then we checked that with the tax assessor's books.

The CHAIRMAN. How many acres were there in that site?

Captain MATHEWS. Approximately 67 acres. It was assessed considerably higher than that in the tax assessor's books, so we felt that the price they offered was a fair price, and recommended to the Navy Department that it be accepted. Then the Department prepared an option which was sent to the Commandant for execution on the part of the owners. That was executed a few weeks afterward, and we had access to the site for immediate building purposes.

The CHAIRMAN. Did you build these buildings by contract, or build them by force account under the direction of the Navy?

Captain MATHEWS. We built them on cost-plus-a-fixed-fee contract. On the second site, we obtained an option from the owners, Frontier Enterprises, Inc., and that option was executed within a few weeks after the Judge Advocate General had prepared it. Both owners were paid promptly for their property. We felt that we had made a good choice in both cases; the prices were fair and reasonable.

The contracts for the actual construction work at both sites were made on October 4, 1940, and awarded to the William Simpson Construction Co., of Los Angeles, who immediately proceeded to organize a construction gang and started work first at the destroyer base site.

Plans for the houses on that site were prepared by the Bureau of Yards and Docks in accordance with a standard set of plans developed for other naval shore activities; consisting of a single-story duplex house, with prefabricated steel construction, concrete floors, a composition tile roof, interior of Upson board, the exterior of wire mesh and stucco, a very usable type of house for the purpose intended: A so-called semi-permanent type of construction, which would probably last for 25 to 50 years under normal conditions.

The second set of defense units, constructed adjacent to the Marine Corps base, were designed by our local district drafting-room force, based on a type which the United States Housing Corporation had designed for houses at Vallejo. We modified that design so as to have a four-family apartment house, of reenforced concrete construction throughout, fireproof, and earthquake-resistant, which would last probably 100 years or longer; be easy to maintain, and very economical over a period of years.

The CHAIRMAN. What was the cost of construction per unit for each of these?

Captain MATHEWS. The cost for the houses at the destroyer base ran about \$3,100; the ones at the Marine base about \$3,800. The ones at Long Beach were similar to the ones at the destroyer base site, ran somewhere around \$2,700.

Senator WALLGREN. You are fixing the cost of the property and land and all?

Captain MATHEWS. The over-all cost for all three of these projects, (1,600 units) including construction costs, cost of land, the fee of the contractor, and everything involved, was \$3,293 per unit.

The CHAIRMAN. What was the fixed fee? How much was it?

Captain MATHEWS. The fixed fee for the Simpson Construction Co.'s contract in San Diego was \$140,000.

The CHAIRMAN. On what size contract?

Captain MATHEWS. \$4,125,000.

The CHAIRMAN. \$4,125,000?

Captain MATHEWS. The fee for the McNeil Construction Co.'s contract at Long Beach, which consisted of 400 units was \$48,000.

The CHAIRMAN. What was the total amount of that contract?

Captain MATHEWS. \$1,263,000.

The CHAIRMAN. Did you exceed the estimate in the construction cost?

Captain MATHEWS. No; as a matter of fact, the limit authorized by Congress, at \$3,500 per unit, would have been about \$5,336,000 for the three contracts. We actually constructed all three units for approximately \$313,000 less than that.

The CHAIRMAN. How did you arrive at this fee? On what basis did you allow the fee?

Captain MATHEWS. The fee was determined by the Chief of the Bureau of Yards and Docks, based on studies made by a board which he appointed for all fixed-fee contracts, since their inception in 1939, for the Pacific air bases. That fee is fully explained in the Chief of Bureau of Yards and Docks' hearing before the Senate committee under date of June 30, 1941, which lists therein all fee contracts, with the amount of the fees and how they were determined by that board.

After the first fee contracts were awarded, he took the average of a good many of those and applied it to subsequent contracts, and it usually ran somewhere between 4 and 5 percent. The average, I believe, now is around 4 $\frac{1}{4}$ percent, on all the fee contracts.

When a supplementary agreement is entered into or changes authorized, the fees are usually reduced, on account of the fact that the contractor is getting additional work. He has his organization already set up, so that is taken into consideration. The fee is usually made slightly less, in some cases around 3 percent, depending upon the magnitude of the change.

The CHAIRMAN. Under your plan does the contractor get any incentive or a bonus for saving any money for the government?

Captain MATHEWS. No, sir; he doesn't.

Senator MEAD. Captain, I would like to know something about the relation of the rental price to the amortization of the cost of the project.

Captain MATHEWS. Yes. Originally the commandant recommended to the Chief of the Bureau of Yards and Docks that the rental prices on our defense housing units in this district be based primarily on the salaries which enlisted personnel draw. There are two grades, the ordinary seamen and seamen second class, we felt were entitled to preference, especially if they had children. The rates for those were made the lowest. We started off with, I believe, \$10 a month per room; if they had two rooms, \$12 $\frac{1}{2}$ and for three rooms it was \$15.

Then for those enlisted men who are petty officers and draw pay approximating \$60 or more a month, we increased that slightly because some of those men draw extra money allowances for rental purposes. The maximum pay established at that time was \$25 per month for civilians who occupied three rooms and who draw a salary of \$125 a month or less.

Since then we have received instructions from the Chief of Bureau of Yards and Docks that, in accordance with the policy which the Navy

Department has determined recently, all rentals should be uniform throughout the continental United States. Our rents here were considered slightly low, and they were increased from \$11 to \$26 for enlisted men, and from \$25 to \$30 for civilians.

We expect, out of those rentals, to maintain and operate the housing units and also to amortize the cost over a period of about 50 years. In other words, if we get a return of 5 percent on the initial cost of the housing units we have constructed, assuming that we get approximately \$200,000 a year in rental from a \$4,000,000 project in San Diego, we would utilize 3 percent for maintenance, repairs, and operating expenses, and 2 percent to amortize. That is what I am trying to do now, go along on that basis. We feel that we can do it providing we don't have any accidents or some catastrophe which we don't anticipate.

Senator WALLGREN. Do you anticipate any further expansion of housing over there, as far as your naval defense set-up is concerned?

Captain MATHEWS. Well, we could utilize to great advantage at least 1,500 additional units.

Senator WALLGREN. Are you planning on putting them in?

Captain MATHEWS. We can put them in and will put them in if funds are made available.

Senator WALLGREN. Have you requested the funds?

Captain MATHEWS. That was in our original estimate submitted to the Chief of the Bureau of Yards and Docks. We told them we could use 1,500 units here and then subsequent to that we said we could use another 1,000 units, as the migration of enlisted personnel from the Long Beach-San Pedro to San Diego continued to indicate the need for more housing in San Diego.

Senator WALLGREN. What is your opinion of the situation in San Diego generally, that is taking in all types of housing? What will their needs be there with all this expansion? I know we are getting a little further afield than your particular job, but I am speaking about all this expansion of Consolidated and Ryan. Do you think they will have enough housing over there to meet their needs?

Captain MATHEWS. I don't think they have it now.

Senator WALLGREN. With this new development they have out there north of the city?

Captain MATHEWS. I don't think that will take care of the continued expansion, at the rate they are going; that is from the information I gather from the local defense housing commission. Their surveys indicate that there is only about 2 percent vacancy list in all the houses in San Diego.

Senator WALLGREN. Will you tell the committee what the rentals are like over there?

Captain MATHEWS. I can't tell you definitely what the rentals are in San Diego. I never made a personal investigation. I do know in certain instances we have had complaints about rents having advanced considerably in the last few months. I know in my own office I have a clerk-stenographer, who said her rent had been raised from \$25 to \$40 a month. That is a considerable raise in 6 months' time. So she and her husband bought themselves a lot and built themselves a home.

Senator WALLGREN. Along that line, I would like to ask Admiral Blakely a question. Do you think it would be advisable for the Federal Government to work out some sort of an arrangement where they would take the water out of the Colorado River and bring it into San Diego, in face of the heavy investment we have in that area?

Admiral BLAKELY. I do think so. I think it is going to be necessary.

Senator MEAD. Captain, what about schools and fire and police protection?

Captain MATHEWS. For our own housing projects we have set aside at each location a plot of land for a school to be erected if and when the city of San Diego can obtain funds from the Federal Government, from some appropriation, to construct suitable schools. At each of these housing projects there are a good many children of school age, primary, grammar school, and several of high school age, and they must have some schools made available very shortly because the city schools are extremely crowded and can't take care of all these additional defense workers' dependents who have come to San Diego. The situation is going to become very critical if schools and pertinent recreational facilities and things like that are not furnished by some agency very soon.

Senator MEAD. Will the facilities be available for the coming school year, this autumn?

Captain MATHEWS. No; they will not because there has been no allocation of funds as yet made for that purpose.

Senator MEAD. So the children will not go to school?

Captain MATHEWS. I wouldn't say they wouldn't go to school. They may have some makeshift scheme set up for them. I don't know exactly what the superintendent of schools is intending to provide.

The CHAIRMAN. I was informed there were 2,700 children in those two projects of school age.

Captain MATHEWS. I believe that is correct.

Senator MEAD. Captain, don't you think somebody ought to get in touch with the superintendent of education to make every effort to arrange for the education of those children, somebody in authority?

Captain MATHEWS. I think the Commandant has that in hand now, sir. He has a civilian personnel officer, I think, who is handling those matters. I personally will not have anything to do with the schools unless there is some construction part involved. But I know there is a definite need for it, and I believe that the superintendent of schools himself has done all that he thinks he can do at the present time to have those conditions remedied. But as for that, I am not qualified to give any further opinion.

Senator MEAD. One of those projects is not a fireproof project, if I recall it rightly. I was wondering if there were any fire facilities nearby.

Captain MATHEWS. All of our projects are fireproof or fire-resistant.

Senator MEAD. All of them?

Captain MATHEWS. Yes.

Senator MEAD. The smaller one?

Captain MATHEWS. Yes. As I say, it is a prefabricated steel house. It has composition shingles on the roof, which of course, has some element of hazard, but it is fire-resistant; and there is stucco on the

outside with mesh steel underneath that. Of course, fire can gut a steel building even, if it gets a good start, but I would call ours a really fire-resistant type of house. The concrete is supposed to be fireproof. There is that distinction between the two. But, for all practical purposes, all of them are fireproof.

Senator MEAD. In connection with housing projects, of course we want to provide adequate housing for our own enlisted personnel. That is a responsibility that we can't avoid. But with reference to housing projects constructed by these other agencies, whether it is the Department of Agriculture or United States Housing or Public Buildings Administration, we must always have in mind that we are in competition with the local builder. If we just charge a rental sufficient to maintain and amortize the cost of the house itself and the lot upon which it is located, without any regard to the street or the necessary facilities, we are providing a housing that may suffice for an emergency but we are also preventing housing that might otherwise be encouraged.

You take, for instance, the figures that you gave the committee with reference to the maintenance and operation and liquidation of the housing that you have in mind. That has no regard for the streets and the maintenance of the streets and other facilities that are necessary in connection with that housing unit.

Captain MATHEWS. Except for those streets within the project itself, which we maintain, of course.

Senator MEAD. I agree that we must furnish this housing for our enlisted personnel and also for the commissioned personnel, but, when we go to furnishing housing for others, we must have in mind, in connection with the charges, all of these charges that result from housing, rather than just the charge of the house and the lot and the immediate facilities associated with them.

Captain MATHEWS. I understand that. Of course there might be and probably will always be some objection on the part of local real-estate dealers and owners against the Government providing low-cost housing.

Senator MEAD. In providing low-cost housing, with or without regard of defense needs, the Government is wholly within its province when inadequate housing facilities are available to those in the low-wage category. There is a certain decency that we believe is necessary in the housing of our people. When it is not furnished, then the invasion of Federal authority cannot be challenged. But where we are furnishing housing, we will say, for well-paid workers, then it occurs to me that these other costs ought to have some relation to the housing. That doesn't apply in the case of the enlisted personnel, however, nor does it apply in the case of those that are entitled to and cannot be given wholesome housing by existing set-ups.

The CHAIRMAN. Any other questions?

Mr. FULTON. Captain, I understand, too, that you had to do with the construction work that related to the recovery of land and the building of the camp for marines and others.

Captain MATHEWS. That is right; all Navy public-works construction in the eleventh naval district, with the exception of certain projects at Long Beach are under my supervision.

Mr. FULTON. Will you tell us how you handled equipment, rental of equipment?

Captain MATHEWS. The equipment which is used on most of our jobs is either owned by the contractor or obtained by the contractor under competitive bids. Where we utilize equipment owned by the contractor, we apply a rental schedule based on instructions which have been issued by the contracting officer, who is the Chief of Bureau of Yards and Docks, and also on a schedule which corresponds very closely to that of the Associated General Contractors' schedule. On that basis, there are certain elements, like insurance, taxes, and depreciation, taken into account. If the contractor wants to use his own equipment he tells us what he has available, what condition it is in, what its market value is, what its insurance value is, and so on down the line. Then we establish what we believe is a fair monthly rental value of that equipment.

Mr. FULTON. Do you allow a profit to the contractor?

Captain MATHEWS. No; he is not supposed to have any profit.

Mr. FULTON. That is because the profit is supposed to be included in the fee?

Captain MATHEWS. The profit is contained in the fee.

Mr. FULTON. Do you check up on him to make sure he doesn't make a profit?

Captain MATHEWS. We do.

Mr. FULTON. How is that done?

Captain MATHEWS. It is done by our resident officer in charge, through our accountants that we have on the job going through his accounts very carefully, double checking, so there is no chance of any profit going into that rental schedule. The rental schedule is made up in my own district office, by my senior accountant. Then it receives my approval after it has gone through the regular process of evaluating all conditions.

Mr. FULTON. How have you taken care of equipment, such as dredges, some of which I believe have been operating there for several years?

Captain MATHEWS. Well, in our fee contracts we haven't had but one dredge on a job. That is one in connection with the Naval Supply Depot pier and transit shed project. We did have a rather small one at the naval air station for a short time working on the causeway.

Mr. FULTON. How is that rental determined on dredges in nonfee work?

Captain MATHEWS. Nonfee? We don't go into that at all.

Mr. FULTON. In other words, on nonfee you don't go into the question.

Captain MATHEWS. Not when we have a lump sum or unit price dredging contract. When we get a unit price bid for dredging, we are not interested in what the contractor's equipment cost, or what he has to pay out for repairs, maintenance, or anything else. It is entirely up to him to furnish the work at his estimated unit cost.

Mr. FULTON. We have noted, because the Navy isn't interested in some matters, they have sometimes paid three or four times the value of these things in rent, and they still don't own them.

Captain MATHEWS. I say where it is a fee contract and we rent them, we do go into all these things.

Mr. FULTON. I was talking of nonfee.

Captain MATHEWS. If it is nonfee, we have competitive bidding on our dredging. We take the lowest unit price bid per cubic yard

in place, or scow measurement, whichever it might be. We feel sure that any reputable contractor is not going to bid on anything unless he can perform. The lowest bid is usually indicative of what the Navy is getting for its money put out.

Mr. FULTON. Have you given any consideration to whether the Navy could get this cheaper by buying the equipment, where it is going to use it for 2 or 3 years, than by taking bids which, of course, are not very indicative of value, where there is an unlimited demand?

Captain MATHEWS. I haven't had occasion to go into that because, personally, I have had no job that would require 2 or 3 years for dredging. All the dredging we have had was of a minor type.

Mr. FULTON. I thought you had fill work and dredging out at the base, that you said had taken several years.

Captain MATHEWS. That is work being done under the supervision of the Engineer Corps of the United States Army who have contracts in effect on a unit price basis for dredging the harbor.

Mr. FULTON. Your own work hasn't been that extensive?

Captain MATHEWS. No; all the dredging I have had was a little dredging at the naval air station on North Island, and for fill at the marine base. There is only a very small yardage in both of those jobs.

Mr. FULTON. In this district you feel confident it isn't like some of them where we found they paid several times the value of the equipment new and still haven't got the ownership of it?

Captain MATHEWS. I am thoroughly confident we haven't overpaid any contractors for any of the equipment rented here. I have gone into that phase carefully, and I have records on every one of our contracts. In no case have we paid rental in excess of what we consider a fair market value of his equipment. I have a complete record of every piece of equipment rented on each job.

Mr. FULTON. That would be included in the housing projects, too?

Captain MATHEWS. That is correct.

The CHAIRMAN. Thank you, Captain.

Senator MEAD. You have a nice project over there.

The CHAIRMAN. The committee will take a 3- or 4-minute recess, and then I want to examine Captain Coffman.

(Recess.)

The CHAIRMAN. The committee will come to order, please.

Captain Coffman, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Captain COFFMAN. I do.

TESTIMONY OF CAPT. RICHARD B. COFFMAN, UNITED STATES NAVY, ASSISTANT COMMANDANT, SAN DIEGO, CALIF.

QUESTION OF ADEQUATE PROTECTION FOR LOS ANGELES HARBOR AREA

The CHAIRMAN. Captain, you are familiar with the harbor situation here in Los Angeles. I think you have some special information which you want to give this committee and which we would like very much to hear. You have, I think, some ideas on this oil situation, which we would like to hear from you.

Captain COFFMAN. As Admiral Blakely's assistant, I have made a study of the harbor situation for about a year. We have in this harbor

over 12 or 13 marine oil terminals. We have 5 shipyards on Terminal Island, in the immediate inner harbor area. We have 2 very large naval projects there, and the air station and the new naval base. These inner harbors are second only to New York in importance of arrivals and clearances in normal times, and the Navy is very vitally interested in the security of such a valuable bank account.

For instance, to give the committee a little back picture, this harbor started to grow up 20 years ago. I was out here. They struck oil on Signal Hill, and it grew very rapidly. They dredged the inner channels. Business boomed. At that time no one thought of the extreme development of aircraft in war. It was after the first World War was over. The harbor went along in its peaceful way of prosperity without any thought of security.

Since the present emergency has come along, we in the Navy, Admiral Blakely and myself, have made a study of it. We find that there are a great many vulnerable spots in the harbor, in the way of potential fire hazards. I make these remarks with no ax to grind, either political or otherwise, but merely from the viewpoint of a naval man with 38 years' experience.

The CHAIRMAN. That is the reason we are asking you to make them, Captain.

Captain COFFMAN. There is one important point. There is no one individual interest, private, civil, State, or Federal, which has complete jurisdiction over these inner harbor areas. The Coast Guard's authority terminates at the waterside of the docks. We all know that, primarily, it is incumbent upon the civil law enforcement agencies to render security, but this harbor has grown so rapidly, it has divided jurisdiction, without any intent of criticism. We have two harbor commissions, one at Long Beach and one in Los Angeles. We have two chambers of commerce, in both those cities, and we have a duplication of civil officials. We have two fire departments, one for each. There is no one instrument of all that set-up that can say it is the officer of the deck, to take charge of the security.

My contacts in the last 12 months have been splendid. The indications that I observe are that each and all of these various interests, civil, private, and otherwise, are perfectly willing for somebody to step into the picture and take charge, for security purposes if no other, as a mutual reason for self-preservation.

For that reason, Admiral Blakely and I are quite interested, in behalf of the fleet which looks upon this port as one of its cornerstones, you might say, in having some central authority established who will be in complete jurisdiction of the area, in connection with taking adequate security measures.

There appears to be no reason why all concerned can't be worked into a homogeneous fabric, under one control, not for the acquisition of properties, lands, docks, or anything, but for the sake of security. I know that Admiral Blakely, because a year ago he gave me the orders to make a study of it, is very much in favor, and I think all of the naval interests are, that some instrument be established for the Federal Government to take charge, in the interest of security of these harbors.

The Navy has no jurisdiction, at the moment, in connection with the harbor area, whatsoever.

The CHAIRMAN. Well, the Navy is not after any police jurisdiction, is it, Captain? The Navy is in the same situation as the Army. The Navy is a fighting unit and not a police unit. It is for the State of California, it seems to me, to create an authority that can get the Navy and the Coast Guard and the Los Angeles police force, and the sheriff all to cooperate under one authority. It seems to me the State of California is that authority.

Captain COFFMAN. Senator, I don't quite agree with that because efforts during the past 12 months indicate that it should be some instrument not affiliated with civil, State, or political interests.

The CHAIRMAN. Well, how are you going to arrive at that conclusion, Captain, without creating a martial-law area? Of course, in the case of an emergency, that is all right, but I am thinking that the emergency is not going to last forever, and that there ought to be some sort of a control authority that can make the situation work as well in ordinary times as it will work under an emergency.

I know we are facing an emergency now, and we are trying to meet that emergency, and if it is necessary to put this authority in the Secretary of the Navy at the present time, I am perfectly willing to have it done. But I think, ordinarily, local authority ought to be the police power, because the closer the police power is to the people, the less likely it is to be abused.

Captain COFFMAN. Yes, sir. Basically, it should be up to all of the law-enforcement agencies first.

The CHAIRMAN. That is right.

Captain COFFMAN. In answer to your question, Senator, the 7th of last May the President issued an Executive order defining a defensive sea area, which extends somewhat to sea from the local port. One answer would be a redefinition of the inner limits of that sea area.

The CHAIRMAN. You think that would help considerably toward meeting the present situation?

Captain COFFMAN. Yes; I believe that.

The CHAIRMAN. Is there any effort being made to get that done?

Captain COFFMAN. Yes. Admiral Blakely has been working on that for months. The record is now in Washington.

The CHAIRMAN. The committee will work on it, also.

Is there anything else, Captain, you feel should go into the record at this time?

Captain COFFMAN. Nothing I can think of.

The CHAIRMAN. Thank you very much, sir.

The committee will recess until 10 o'clock tomorrow morning, at which time we will hear the airplane manufacturers.

(Whereupon, at 3:15 p. m., the committee recessed until 10 a. m., Friday, August 22, 1941.)

INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

FRIDAY, AUGUST 22, 1941

UNITED STATES SENATE,
SPECIAL COMMITTEE INVESTIGATING THE
NATIONAL DEFENSE PROGRAM,
Los Angeles, Calif.

The committee met at 10 a. m., pursuant to adjournment on Thursday, August 21, 1941, in courtroom No. 8, United States Courthouse, Senator Harry S. Truman presiding.

Present: Senators Harry S. Truman, James M. Mead, and Mon C. Wallgren.

Present also: Hugh A. Fulton, chief counsel; Charles P. Clark, associate chief counsel.

The CHAIRMAN. The committee will come to order. Mr. Douglas will be the first witness. Will you be sworn?

Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. DOUGLAS. I do.

TESTIMONY OF DONALD WILLS DOUGLAS, PRESIDENT, DOUGLAS AIRCRAFT CO., SANTA MONICA, CALIF.

PROBLEMS OF AIRCRAFT CONSTRUCTION ON THE PACIFIC COAST

The CHAIRMAN. Will you take that seat and give your name and connection to the reporter?

Mr. DOUGLAS. Donald Wills Douglas, president of Douglas Aircraft Co., Santa Monica.

The CHAIRMAN. Mr. Douglas, we are particularly interested in the material situation as it affects the construction of aircraft. We are particularly interested in that part of the program which affects parts and the steel deliveries. I would like to have a statement from you as to your conditions in that regard.

Mr. DOUGLAS. Well, at the moment we are in no serious difficulty due to delay, but, of course, we have had a large program in trying to spread subcontracting through many companies, many small—

The CHAIRMAN (interposing). We are very much interested in that, in keeping the small companies in business. What is your attitude toward that?

Mr. DOUGLAS. We are very much for it, Senator. I think we were one of the first to try and subcontract further than industry had previously done.

The CHAIRMAN. Are you having any success at it?

Mr. DOUGLAS. We are having very good success. Of course, at the initial stage of such a program we do hit some bad conditions; in other words, we may pick certain subcontractors who are not capable, and it takes a little time to find that out and substitute for them, capable subcontractors. But, on the whole, I would say that our experience along that line has been very favorable.

We, as you may know, received a rather large contract for the light bomber last summer, and I think we were the first to subcontract, in a large part, to the automotive industry. We went to such people as Briggs Body and Murray Body, and people of that character in Detroit. They have been working on those projects and are making very good progress.

The CHAIRMAN. Are you using any small manufacturers in your immediate neighborhood here?

Mr. DOUGLAS. Yes, sir, Senator. We always have. The policy of the Douglas Co. from the time it started here, when it had rather insufficient capital, was that, rather than try to be completely equipped itself, it went out and helped develop small shops in this Los Angeles area. So that we have always followed that practice here and still do so, and have expanded it recently.

The CHAIRMAN. Are deliveries being held up by the failure of any fundamental metals such as steel, aluminum, copper?

Mr. DOUGLAS. Not at the moment. We have a growing feeling that there is going to be trouble. Of course, we are never in the position of knowing that as well as people in the O. P. M. who are right on the firing line of the raw-material situation.

The CHAIRMAN. Well, I have discovered very conclusively that the O. P. M. doesn't know, and that is why I am out here trying to find out. I am trying to find out from the people who are interested, as to what their necessities are, and how they are being treated by the priorities situation. That is what I am particularly interested in.

Mr. DOUGLAS. Yes, sir. Well, in general, I think the thing is fairly sound. There has recently been an indication of trouble in steel. The reason for that, of course, is that the aircraft industry needs, in the main, specialties in steel, and all of their requirements lumped together represents a very small percentage to the steel companies. I think there has been difficulty in getting steel companies to make runs on aircraft steel. If that isn't corrected soon—which we are taking steps to correct—then there might become a serious shortage on certain steel specialties that we use.

As far as the Douglas Co. is concerned, to date we have had no interruption due to any of the aluminum alloys, with the exception, in some cases, of forgings, and that interruption or delay has not been because of the basic shortage of material but, rather, some shortage in the fabricating equipment of those people who make forgings.

The CHAIRMAN. How about the labor situation?

Mr. DOUGLAS. Well, the labor situation, Senator, has been undergoing quite a scanning here recently. After the strike at North American Aviation, and the findings of the Mediation Board, which resulted in quite an upping of the minimum-wage group and some upping of the more skilled men, the industry started, as a unit here in southern California, to examine the whole situation, feeling that we would have to equalize, and hope to stabilize, although we would have

some labor trouble here. So they constituted a committee, and we took offices for that committee, and members from each of the major concerns in Los Angeles have been meeting for some 2 or 3 months.

Their first problems, they felt, toward equalization and stabilization was to come to some standard job classification, so that each shop talked about the same thing, meant the same thing when they gave the same name to a certain grade of mechanic.

We felt, if we got that, then we could go into the matter of seeing how far the wages in the different plants here varied and how we might effect, with the Government's permission and approval, some equalization in this matter.

About 2 weeks ago that job classification committee finished their study and produced a very fine volume. They took, I believe, something over 1,100 different job classifications among the 7 major companies here and boiled them down to, I think, 119, which in itself represented quite a bit of work, and I personally believe is one of the most constructive jobs along that line that any industry has done. Ours, of course, is an industry that has very complicated labor classifications.

They did that, and then they got from each concern the labor rates that were being paid, the high and low and average, in each of those job classifications.

The O. P. M. came into the picture. We made, as an industry group here, certain suggestions to the O. P. M., particularly to Mr. Hillman, suggesting steps to equalize and attempt to stabilize the condition that has been caused by the North American finding. That has been a very unsatisfactory situation. The War and the Navy Departments apparently had no part in that and referred all of those questions to the O. P. M., and, I rather imagine, rightly.

Mr. Hillman was never too clear in his answers to our queries. We shortly found that it seemed impossible, under the present-day circumstances, to stabilize in accordance with the War and Navy Department's wishes in the matter of labor relations here. The War and Navy Departments stated that their idea of stabilization was that we should get from those labor organizations, where there were any, a durable stabilization agreement. I never was able to get a definite definition of what they meant, and the nearest I came to that was a statement from Mr. Bard, Assistant Secretary of the Navy, that he considered the type of durable stabilization agreement that was arrived at in the matter of the shipyards was the thing that we should get, and that, gentlemen, if you will remember, was a 2-year agreement, with fixed wages, and a provision for some variation of wages based on the cost of living.

Well, we met out here, and the union international leaders came out here, but, as soon as they arrived here, they refused to sit down in the same room with each other and with the management which their unions had representation with.

The CHAIRMAN. You mean the A. F. of L. and the C. I. O. wouldn't meet together?

Mr. DOUGLAS. They would not meet together, no, Senator, so the thing was really getting nowhere.

Mr. Hillman then called a meeting in Washington, which started this past Monday, and the same situation, to the best of my knowledge, has since prevailed there. The two major unions refused to sit down

together. I personally fear that there is no chance of stabilization unless they are made to sit down together because each, when they are alone, negotiating with the companies that they have representation in, is afraid to make a stable agreement for fear that the other union is going to get something better than them. So they each say, "Well, we will do so-and-so, but, of course, if the other fellow gets something better, the deal is off."

Consequently, as far as I can determine from the advice I have had from Washington, and what I have seen out here, we are no closer to any stabilization or even equalization in the wage structure in the southern California aircraft industry today than when we started in the latter part of June.

I must go on record, gentlemen, that the industry here has worked together day and night, very cooperatively. There has been nothing but the most sincere frankness between the different factories here, in their effort to come to some solution of this thing.

In turn, I think, too, that the workers, the employees, at most of our factories have been very patient. It appeared to some of us a couple of weeks ago that there was the making for real, serious labor trouble, with work interruption here. But our men have been very patient. They have taken our statements that we are working on this with the Government, and that we are sure before long we will get a satisfactory solution, and they have stood to and gone on with their work and haven't slowed up at all, that I know of, in any of the plants. That, I think, is a pleasure to be able to report, sir.

The CHAIRMAN. We are also interested, Mr. Douglas, in the expansion program. Who pays for the expansion program in these various plants, that is the additions to the Douglas plant, and Consolidated and Lockheed?

Mr. DOUGLAS. In the main, I would say the Government is paying for it, Senator, but, of course, all of the companies, in turn, have also spent some of their own money. Our policy at Douglas has been like this: All expansions at our parent plant at Santa Monica, we pay for from our own capital. That goes also for El Segundo plant.

Our Long Beach plant, which is the emergency plant, was built entirely of Government funds, in a rather roundabout way, of course. That was built under the emergency plant facilities affair, wherein the banks loaned a holding company the money to build the plant; then the Government, in turn, contracted with that holding company to pay off that plant in 60 monthly installments. In effect, however, it is a Government plant.

The plant we are building at Tulsa is a Government-owned plant. The Corps of Engineers are building that, building it with Government funds directly. That plant then will be leased to the Douglas Co. for us to construct bombers at that site.

The CHAIRMAN. How about the profits on these Government contracts?

Mr. DOUGLAS. Our experience, Senator Truman, is this: If I may read from my accounting department's records, in the fiscal year of 1940 which, with us, ends on the 1st of December, we lost on all our Army business \$105,032, and on all our Navy business, \$1,037,619,

or during that year of 1940 we have lost on all our Government business a total of \$1,142,651.

For the 6 months of our next fiscal year, ending May 31, 1941, we lost on our Army business \$1,653,139, on our Navy business, \$187,743, or during those first 6 months of '41 we lost on all our Government business \$1,840,882.

We have made money in the Douglas Co. but that has been made off foreign and commercial business. We have made no money, and have lost money only on our Government business for the last year and one-half.

Senator WALLGREN. When did you start filling foreign contracts? How long ago?

Mr. DOUGLAS. We have always had some foreign business, Senator. Do you mean in connection with the present emergency?

Senator WALLGREN. Yes.

Mr. DOUGLAS. Well, let's see—dates get kind of fuzzy—but it was before the war.

Senator WALLGREN. Before the war?

Mr. DOUGLAS. The French came here, before the war, in '39 and started placing orders.

Senator WALLGREN. You have been making ships for several countries, haven't you?

Mr. DOUGLAS. Yes.

Senator WALLGREN. And in each instance you have been making a little money?

Mr. DOUGLAS. That is right.

Senator WALLGREN. But you haven't made any money off American contracts?

Mr. DOUGLAS. Correct.

Senator WALLGREN. I presume you would favor a program with the Government that would permit the Government to pay you a bonus on any money that you might save to the Government in the construction of ships.

Mr. DOUGLAS. Yes; I believe in that system. The industry has talked of that from time to time, Senator.

Senator WALLGREN. When it comes to the matter of experiments, are those experiments financed by the Federal Government?

Mr. DOUGLAS. No; only in that they pay a contract price, in some cases for the construction of experimental airplanes.

Senator WALLGREN. Well, assuming that, in your experiments, you do something unusual, would it belong to you or belong to your factory? Would you have control of that?

Mr. DOUGLAS. Not if it were built on contract for the United States Government.

The CHAIRMAN. Does the cost of financing patents in the industry, in your opinion, prevent initiative in new inventions, and things of that sort?

Mr. DOUGLAS. No, Senator; I don't believe it does.

Senator WALLGREN. Is the War Department doing anything to encourage you to experiment, or is it, you might say, discouraging you against further experimentation?

Mr. DOUGLAS. I shouldn't say they are discouraging us. It has been discouraging some in the past, in that it has been difficult at times to obtain proper prices for experimental business.

Senator WALLGREN. Let's take the case of this B-19. What was the cost of that to the factory? I have heard that you folks lost a little money on that.

Mr. DOUGLAS. Yes, sir; we did. The cost to date on that airplane was \$3,970,685, and our total contract consideration, when it is complete, which should be shortly, \$1,400,563.

Senator WALLGREN. You mean you lost two and one-half million?

Mr. DOUGLAS. We lost \$2,575,122.

Senator WALLGREN. Did the War Department ask you to make any changes when you started that?

Mr. DOUGLAS. Yes, sir. There were a number of changes made.

The CHAIRMAN. Do you have difficulty with the War and Navy Departments asking for changes in the course of construction, on orders of planes?

Mr. DOUGLAS. That, in this business which is a dynamic one, is always a difficulty. I think it is one that no one can be blamed for.

The CHAIRMAN. It nevertheless causes delay?

Mr. DOUGLAS. It does, Senator. It is a very difficult thing when a change is instituted in the middle of a program. It is a very difficult thing for us to estimate what the cost of that is to us. That is where we so frequently take a rather bad beating on our cost on experimental work or on production.

Senator WALLGREN. Let me get this picture right. You mean to say you spent \$3,970,000 on the construction of a ship that was experimental?

Mr. DOUGLAS. Correct.

Senator WALLGREN. After you had completed that ship, had it been a success, you wouldn't have owned it, you wouldn't have owned the patents on it?

Mr. DOUGLAS. Well, there are no specific patents, Senator.

Senator WALLGREN. It wouldn't be considered your ship, would it?

Mr. DOUGLAS. The design would be our design, but the War Department policy, where they have paid a contract price on an experimental plane is that they have an intrinsic right in it. Should they want to buy more, and should they not feel they could make the proper arrangement with me, they would feel free then to take that design and go to some other constructor and ask him to build it.

Senator WALLGREN. Is this \$1,450,000 the Government paid you, just the down payment of the Government? Aren't they going to pay any more?

Mr. DOUGLAS. No; I am afraid they aren't going to pay any more.

Senator WALLGREN. And you are stuck for two and one-half million?

Mr. DOUGLAS. I am afraid we are.

Senator WALLGREN. And you have been losing money on Government contracts?

Mr. DOUGLAS. For the last 18 months.

Senator WALLGREN. Do you know whether that is the history of the men who have been engaged in making planes for the War Department?

Mr. DOUGLAS. I am quite sure the industry as a whole, on the average, has always lost money on the experimental business.

Senator WALLGREN. How about its regular business? Is that the reason why you have lost money on Government contracts, that two and one-half million? Has it eaten into your profits and put you in the red?

Mr. DOUGLAS. There have been other losses than those I have cited.

Senator WALLGREN. Even with that wiped out you would still have a loss?

Mr. DOUGLAS. That is right.

Senator WALLGREN. What kind of ships are you manufacturing?

Mr. DOUGLAS. I beg your pardon.

Senator WALLGREN. What type of ships are you manufacturing out there?

Mr. DOUGLAS. We are manufacturing civilian and Army transports of two- and four-engine types. We are manufacturing a light bomber for the British and for our Army. We are getting ready to manufacture the four-engine Consolidated bomber in Tulsa in connection with Henry Ford. We are getting ready to build the four-engine Boeing at Long Beach as a joint venture with the Lockheed Co. and the Boeing Co., and we are also building dive bombers at El Segundo.

Senator WALLGREN. How about your plant out here at Long Beach? That isn't completed yet.

Mr. DOUGLAS. The first unit is very close to completed, Senator. You see, that was started for a certain project. That was started to construct in it only light bombers and some Army transports. Here last spring, when the Army decided to build great quantities, or greater quantities of four-engine airplanes, they then came to us and asked us to cancel out some of the light bombers and to take on the construction of a large number of the Boeing four-engine bombers.

We looked into that and found out that, even though we canceled about half of our order that was to be built from Long Beach, of the light bomber, we still would not have enough plant there. So it involved obtaining facilities about double those that we had started in Long Beach. So we are right at the moment about to finish the initial development, which is approximately a \$12,000,000 development at Long Beach. We have been for some weeks and shortly hope to conclude the negotiations with the Government for the financing and initiating of the construction of another unit, of approximately the same size there in Long Beach; in other words, doubling what we had originally started to do at the Long Beach plant. We will then be building at Long Beach, you see, C-47 cargo, the A-20-B light bomber and the Boeing B-17-E four-engine bomber.

Senator WALLGREN. How many men do you anticipate employing at this plant at Long Beach?

Mr. DOUGLAS. It looks at though it may go as high, at the peak, as 25,000 men.

Senator WALLGREN. Where are those men going to be housed? Have you given any thought to that?

Mr. DOUGLAS. Yes, we have; and we are looking into the matter, because we are rather worried that there isn't going to be housing enough for that number in the immediate vicinity of the plant.

Senator WALLGREN. The same way with me. I have looked the plant over. I have seen the situation.

Mr. DOUGLAS. Then, too, Senator, you see, subsequent to the time that we first started building any plant at Long Beach there came the large expansion of the shipyards in the San Pedro and Wilmington yards. That has imposed another labor load on that district, that was not originally contemplated when that plant went down there.

Senator WALLGREN. It looks to me that you just wouldn't be able to open with sufficient men at the present time, without undergoing an unusual problem as far as transportation is concerned to and from the plant, in addition to actually locating the skilled men, technical men, that you are going to need. I can't quite see it; somehow you boys seem to be able to do it. Right now it looks like a bad prospect to me. I am wondering whether it looks that way to you.

Mr. DOUGLAS. It does, Senator, and we are making moves to try and get some form of Federal housing there. We doubt that private capital can be enticed to build sufficient housing to handle what we believe will be needed. There has been some evidence of private contractors being willing to go ahead as far as, we will say, 500 homes, and they have been trying to get priorities, and we have been trying to aid them to get priorities, so they would have courage to start their construction, but I doubt if 500 homes there is going to much more than scratch the surface.

Senator WALLGREN. A little while ago you mentioned the fact that there was same shortage of steel. What type of steel do you use?

Mr. DOUGLAS. Most of our steel is alloy steel, bars, forgings, or in tubing.

Senator WALLGREN. That all comes from the east coast?

Mr. DOUGLAS. That is right.

Senator WALLGREN. Do you have a prepared statement that you want to leave?

Mr. DOUGLAS. Yes, Senator, I have one I would like to put on the record and, if you wish, read it.

The CHAIRMAN. Proceed and read it, Mr. Douglas.

Mr. DOUGLAS (reading Exhibit No. 110):

GENTLEMEN: I am grateful for the opportunity of assisting your honorable body in the important task you are performing for the people of the United States in your investigation of this Nation's defense efforts.

Because I feel it may be of additional help to you in your interpretation of the many facts and figures certain to be developed in this phase of your inquiry, I have asked for the privilege of making this preliminary statement as a brief outline of the many complex and intangible factors which play such a vital part in all our undertakings for defense.

I am confident the testimony produced before you here, and elsewhere, will disclose, among other things, the tremendous scope and intensity of the task assigned us in the aircraft industry in this emergency. I am equally confident the evidence will show that the industry has done a magnificent job in transforming almost overnight, a small group of limited, conservative operations into a Nation-wide network of huge plants battling to produce in 2 years what took other nations 7 or 8 years to do.

In support of this statement let me, parenthetically, invite your attention to the following figures compiled by the Office of Production Management.

On January 1, 1939, or before this notable expansion began, the industry's total floor space, excluding that of parts and accessories manufacturers, was 9,454,550 square feet. Eighteen months later the number of square feet had grown to 40,096,497.

During that same period the number of employees had increased from 44,296 to 281,306 and the total weekly pay roll from \$1,532,723 to \$10,605,321.

Perhaps an even more significant index, particularly since it demonstrates that our rate of accelerated production continues, is the increase of man-hours during the 4 months of March, April, May, and June 1941. These were, on March 1, 39,327,978; by July 1, 46,620,965, or a gain in this brief interval of better than 10 percent.

As for production, the O. P. M. figures for the 12-month period from July 1, 1940, when large-scale operations actually got under way, show that the industry turned out 11,640 planes. Of these, 7,423 airplanes were delivered in the latter half of this period, thus further corroborating the statement that our war effort continues with no slackening.

Neither our industry nor any other industry in this country was burdened ever with so immense a task with so little preparation or warning. Under the unusual circumstances, ordinary procedures had to be scrapped. In many instances, quick action became preferable to economy, and speed of necessity took the place of ordinary caution and routine procedures.

From this grew numerous, and often costly, mistakes on the part of those who had to make decisions and shoulder responsibility.

Viewed as a whole, from the perspective of a Nation-wide effort of a gigantic size, ordinary or isolated instances or such mistakes in judgment or policy lose their importance. It is the over-all picture, I venture to suggest, that counts, and in this, I know, the committee will find the aircraft industry performing valuable and efficient service to our Nation, and to embattled democracies everywhere.

In this connection, I cannot let the opportunity pass without paying sincere and heartfelt tribute to the American aircraft worker. In large measure, the unquestionable superiority of United States airplanes in war service abroad should be credited to his craftsmanship and the painstaking care with which he performs the tasks to which his hands are set.

But building airplanes is not altogether a matter of skill, brawn, engineering brains, and proper equipment. It is also a matter of spirit and I say without reservation that his cheerful approach to the job at hand, his eagerness to share in our defense effort, and his single-purposed will to final victory is one of the aviation industry's greatest assets.

Because we are living in critical and crushing days of preparation and expansion, we have learned to understand and appraise in their true light what at first seemed to us to be cases of indifference, incompetence, or injustice in official circles. We learned to be patient and to reflect that public officials whose acts or policies at times appeared oppressive or ill-founded, often labored under the same handicaps and disadvantages that confronted us in our problems.

Of course, that is not true of everything and everyone, and your honorable body can, and no doubt will, be the best judge in the matter. I think you will be happy to learn, however, that we, in our company and in the industry, can testify to many instances of splendid cooperation and helpful spirit on the part of scores of Army and Navy officials and other Government executives whose burdens were and still are no less complex than ours, and whose actions also were subject to the thousand shocks and ills that go with an all-out effort of a large nation.

It is because of this helpful spirit on the part of many in our armed services, and because, as I have endeavored to suggest, the job was, and still is, so tremendous and exacting, that I hope you will see fit to approach any critical testimony I may be asked to reveal, more as a measure of difficulties and complications inherent in a task so great and so unexpected, than as a personal criticism of individuals or organizations within the structure of our governmental machinery. I feel sincerely this should be our approach, because facts and policies can and will speak for themselves but individuals may not always be able to do so.

(The statement referred to was marked "Exhibit No. 110" and appears in full in the text.)

Senator WALLGREN. Mr. Douglas, do you believe that it is necessary to put all the aircraft industry into this one small area, as you are doing in California?

Mr. DOUGLAS. No; I have never approved of that, Senator.

Senator WALLGREN. We have more than 50 percent of all the airplanes manufactured in this country manufactured right down here in this area.

Mr. DOUGLAS. Well, I think it is unfortunate that that occurred. Of course, it did occur because of the speed with which we were asked to go into the thing, you see. When speed is the first thing, it is rather hard, at the same time that you are expanding, to go and do a great part of that expansion in other areas.

Senator WALLGREN. On the other hand, it must be quite difficult to try and move plants inland and there obtain employees to work in those plants.

Mr. DOUGLAS. Yes; it is. It is a rather large job, for instance, in our case to go and start a new plant of quite a size, in a town like Tulsa, Okla. We don't know much about local conditions there. We are certainly aware of the fact that there is not much labor available of the type that we need, but we are prepared to tackle the problem. We know it is quite a large one.

Senator WALLGREN. I think that is all. I think you are doing a great job.

Senator MEAD. Mr. Douglas, if I may ask a question. I realize that this war is different from the wars of the past because it requires an accumulation of equipment never used before, equipment that takes a long time to prepare, equipment such as bombers and tanks, and so forth. It also requires a long period of training that wasn't so in the old days.

Now, unfortunately for the democracies, that equipment was available and that training was present for the Axis Powers. They had 7 years to get ready. The democracies have been striving hurriedly, just as you explained, to do the very best job they possibly could do.

Our initial task seemed to be to send a sufficient volume of supplies to protect the British Isles from invasion. All of the various fronts have fallen down; strategic retreats, one after another, have taken place, to the extent that it may be having an effect upon the morale of our people.

Now, we are continuing to send our equipment to England. Evidently the high staff and the high command have no plans for the immediate use of it, insofar as invasion of other countries is concerned, or insofar as its aggressive use by creating another front.

What I would like to know is this: Is that percentage of your output assigned to Great Britain leaving here quickly? Is it being ferried across without delay and, to your knowledge, is it uncrated and used as soon as it gets over there? What could you tell us about that?

Mr. DOUGLAS. I can tell you this, Senator Mead, that our airplanes, to begin with, are not being ferried over.

Senator MEAD. Well, shipped over?

Mr. DOUGLAS. The one that we are supplying the British is a light bomber which hasn't enough range, you see. It is being shipped. There has been, at times, some delays at the shipping points, such as New York, due to the shipping situation, but, in the main, I think they have moved rather fast; they have moved across. We don't, of course, know ourselves what losses there may have been, but we know that they have been used, and we have had numerous reports of their being satisfied with them. I couldn't say that they were all used or

they weren't all used, because I don't know. But I would judge from what we have heard—this is rather third-hand—that they are all being used.

Senator MEAD. I am told—we are told at least that they have about 700 airports in Great Britain, probably all stocked with ships, and there seems to be, except for R. A. F. raids on the invasion ports, which have been in progress for the last year and one-half or 2, and a few raids on the hinterland, very little use of some of the equipment we are sending over. In fact, we read in the newspapers and in the magazines that there are a great many of our planes uncattered over in England and that they are stored along the docks and the wharves in the boxes in which they were sent over.

Now, of course, if that is true, in view of the fact that there are so many other fighting fronts where equipment is necessary now to prevent this succession of strategic retreats, we want to see to it that the equipment, the necessary equipment, is at these fronts where their use at present will be in the best interest of our own security. For instance, if this great Pacific coast is left vulnerable by an inadequacy of bombers at Hawaii and Guam, at the Philippines, at Batavia, and at other Pacific strategic points, it would certainly be to our advantage to see that that weakness was immediately taken care of, rather than to be shipping planes where they are accumulating and where there may not be an immediate use for them. Experts who inform public opinion as to what should be done, military experts, columnists, who, by the way, are, fortunately, not fighting the war—

The CHAIRMAN (interposing). And know very little about it, in my opinion.

Senator MEAD. Yes—keep telling us that this accumulation is continuing, that this new front is not being opened up. Well, we want to make sure that this criticism is unwarranted, by seeing to it that this equipment which takes a long period of time to accumulate is sent where it is going to be used in the best interests of our own national security. I am thinking of this Pacific situation, particularly, at this moment.

Mr. DOUGLAS. We don't have any really authentic, first-hand information ourselves on that matter. We do know, of course, that our equipment is not only going to England but is going to some of the other fronts.

Senator MEAD. And it is leaving promptly, and you know it is being used.

Mr. DOUGLAS. It is leaving as promptly as one could reasonably expect, under the circumstances.

The CHAIRMAN. Thank you, Mr. Douglas. The photographers are very anxious to have a picture of you with this committee. If you feel inclined to have it made we will adjourn for a few minutes and have it made.

(The committee took a short recess at this point.)

The CHAIRMAN. The committee will come to order.

Mr. Kindelberger, will you be sworn? Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. KINDELBERGER. I do.

TESTIMONY OF J. H. KINDELBERGER, PRESIDENT, NORTH AMERICAN AVIATION CORPORATION, LOS ANGELES, CALIF.

The CHAIRMAN. Will you be seated, Mr. Kindelberger, and give the reporter your name and connections?

Mr. KINDELBERGER. J. H. Kindelberger, president, North American Aviation Corporation.

The CHAIRMAN. Mr. Kindelberger, you heard the testimony of Mr. Douglas. What we are particularly interested in is the obtaining of parts, metals, and things of that sort. Are you having any difficulty in your plant?

Mr. KINDELBERGER. Yes; we are, Senator. I brought Mr. Monroe here with me. He has charge of our materials entirely. I would suggest, if it is agreeable with you, that we leave that for discussion with him because he can answer it in so much more detail.

The CHAIRMAN. All right, we will do that. Then the labor situation as it affects you.

Mr. KINDELBERGER. As you know, Senator, we have just gone through a war. As a matter of fact, I just got over being a corporal about a month ago. We had the strike, as you know, and the Army moved in and policed the place. The same day they came in, in the morning, about 2,000 of our people came back to work; the next day we had 5,000, and the next day we had 6,900 on the day shift, which was a normal day's operation. They went right back to work and have been doing a very fine job ever since.

There was, in the beginning, a little nervousness and slight dissatisfaction, but that smoothed out very quickly, and we have been surprised and delighted at how easily everybody dropped back into the old groove and have gone to work.

We, of course, have been very much interested in the labor stabilization situation, the same as Mr. Douglas. I think he gave a very fine story on that, and I see very little to add to that. We are in the position of waiting now until this Washington conference is completed. We expect, then, to put into effect a classification which is complete, as a result of some months of very hard study by experts which have been called in from various trades to help us. We feel that we will have a very much more equitable and reasonable pay scale throughout the industry as a result of all of our troubles.

I think there is no question that we were not completely blameless in our pay scales, principally due to the fact that we had six and eight times expansions, all of us—explosions rather than expansions. Things were a little out of hand.

The CHAIRMAN. Will this reclassification Mr. Douglas was talking about be any asset to you in making this adjustment?

Mr. KINDELBERGER. Yes; it will. It is a very necessary thing. As he explained, it starts out with the description of a job, according to a certain name for that job, evaluating as to what the requirements may be that are necessary to have a man classified as such an operator, and the various degrees. Then, by well-established industrial engineering, mathematical formulas, it is possible to get comparative rates that should be paid, in consideration of the skill, time, experience required, the hazard, the physical effort, all of the other things that go to make up the job. By getting that done scientifically, it results

in a very much more equitable arrangement than depending upon any one person's judgment, and that has been done.

The CHAIRMAN. Are you having difficulty with the War Department and the Navy changing plans on planes after they are in production?

Mr. KINDELBERGER. Oh, yes; we always have had, but, of course, since the war has become a little more intense, it has become a very serious problem. I have no criticism of either the War Department or the Navy Department on that. It is just a situation.

The CHAIRMAN. Those changes are necessary if you are going to keep up to date, but they necessarily delay delivery, don't they?

Mr. KINDELBERGER. They must. As an example, we are building a bomber which had certain armament. That armament was decided upon 2½ years ago, when the War Department specifications were prepared. It was found that the armament was inadequate.

The CHAIRMAN. That was as a result of the experience of the war?

Mr. KINDELBERGER. As a result of the experience of the war. Therefore, it became necessary to quadruple the amount of defensive armament that is put on the airplane. In doing so, naturally, the weight of the airplane was greatly increased. In increasing the weight of the airplane 10 or 15 percent, going into a new group of those planes, it was advisable to redesign the structure completely, which meant recalculating every strength part on the airplane, in order that it would be strong enough to carry the greater load of armament, as one example.

There have been things of radio, new discoveries in the way of bomb sights, and miscellaneous other things which it is difficult to discuss publicly. The net result is that we have had, and everybody else has had, a continuous stream of changes. Both the Army and the Navy have been most considerate in realizing the seriousness of the thing and in agreeing with us on a point at which the change could be made with the least interruption in production. But no change can be made without in some way interrupting the flow.

The CHAIRMAN. Has the plant expansion in your case been handled as it was with Douglas?

Mr. KINDELBERGER. How?

The CHAIRMAN. How has the plant expansion been financed in your instance?

Mr. KINDELBERGER. We have had three different schemes, Senator. We have expanded double the size of our plant in Inglewood, and we paid for that out of our own capital entirely. The plant in Dallas is a Defense Plants Corporation plant, which is owned by the corporation set up under R. F. C., and is leased to us and we operate it. We designed the plant and all its equipment, special equipment, supervised the construction, and saw the whole thing through for a fee of \$1.

The same thing was done in Kansas City, except that we supervised all the design specifications and all of the special equipment, but it was built by the Corps of Engineers directly with Government funds and will be leased by the War Department to us. In Kansas City we will build the B-25 bombers, parts of which will be built by General Motors as well as ourselves. Fisher Body is to supply a large percentage of the parts from a plant they are erecting in Memphis, Tenn. That plant is Government-owned. The Dallas plant is completely Government-owned. Our plant in Inglewood is completely

owned by ourselves, with the exception of some equipment which is Defense Plants Corporation equipment. Such equipment, in case the emergency were to cease, could be taken out without interrupting our normal operations.

The CHAIRMAN. How about profits?

Mr. KINDELBERGER. They vary all over the lot. We have consistently made a good profit. We have lost on some and we have made on others. Our profit for the last year was \$7,000,000.

The CHAIRMAN. I mean on your Government contracts, particularly. I am not interested in your private business. How is the profit on your Government contracts handled? Is it guaranteed profits?

Mr. KINDELBERGER. No. Our business was all got by competitive bidding, or by negotiation based upon a competitive bid. We used audits at the time as a basis for negotiation. We didn't have any negotiated contracts until 1940, as you know, because it was all competitive bidding up until then.

Our gross profit on some of that business is running as high as 30 percent. It is running as high as 20 percent loss on the bombers at present, and we hope to catch up on that.

The CHAIRMAN. Will you balance out with a net profit on your Government contracts?

Mr. KINDELBERGER. Yes, sir.

The CHAIRMAN. About what will that percentage average?

Mr. KINDELBERGER. I imagine it will be in the neighborhood of 22 or 23 percent gross, before taxes or administrative expense.

The CHAIRMAN. What will the net profit be?

Mr. KINDELBERGER. The net profit? Well, we usually save about 30 cents out of a dollar, after taxes.

The CHAIRMAN. So it would be about a third of 22 percent, which would be about 8 percent.

Mr. KINDELBERGER. It would run nearly 10 percent profit, I would say. I would like to point out, however, that the general standard for cost is the costs per pound of airplane. In other words, you can't compare the cost of a bomber with the cost of a trainer or pursuit plane as a unit, but you can compare dollars per pound of airplane in a relatively reasonable manner. That has been proven.

We have consistently taken business at far less than average cost per pound of airplane.

Senator WALLGREN. What is the largest ship you are manufacturing out at your plant?

Mr. KINDELBERGER. It is the B-25, gross weight of just under 30,000 pounds.

Senator WALLGREN. Could you give the committee an idea of what that is costing the Government?

Mr. KINDELBERGER. Our contract price on the airplane——

Senator WALLGREN (interposing). Without the motor.

Mr. KINDELBERGER. Without the motor—was in the neighborhood of \$75,000. I haven't got the exact figure in my head, but I know it was around \$75,000.

Senator WALLGREN. And about the cost of a trainer?

Mr. KINDELBERGER. Trainers run around seventeen-four.

Senator WALLGREN. How about this first ship you mentioned, that you say is a bomber?

Mr. KINDELBERGER. That is around \$75,000.

Senator WALLGREN. You recall that during the testimony at Washington we were told that these planes were costing \$350,000 without a motor. I think the wrong impression has gone out to the public on this thing. As far as I can learn, none of these planes are costing that kind of money.

Mr. FULTON. That was the Secretary of War's estimate of what a four-engine 80,000-pound bomber could cost.

Senator WALLGREN. Have you any knowledge as to what such a ship would cost?

Mr. KINDELBERGER. It depends so much upon the ship itself, how many have been built and what state of construction they are in.

Senator WALLGREN. Assuming they were made in quantities, volume.

Mr. KINDELBERGER. The contract price for those airplanes I think was in the neighborhood of \$200,000, and it was based upon the actual experience and cost of operation, that had been checked by audits at the time. There is no question that the price is reasonable fair because I know that they were checking into it, and I also know that at the time this bomber business was coming up here, the participation of the automotive business, we also were discussing the building of four-engine bombers, and would have been doing so had it not been that we had expanded our organization to the point that it was cracking already.

Senator WALLGREN. The reason I asked the question is because of the testimony given at that time, that people were led to believe that our planes were costing a little too much money.

Mr. KINDELBERGER. The four-engine bomber will cost more per pound than a twin-engine bomber because, in the first place, it takes greater space to build it, it is more complicated in proportion, and it would roughly cost 10 to 15 percent per pound more. They seldom build the same quantity, you see. In building in quantity, you divide your tooling and your engineering and your development expense down by the number that you are going to build.

Senator MEAD. Mr. Kindelberger, what progress is being made on this wage-stabilization plan?

Mr. KINDELBERGER. It is in Washington now.

Senator MEAD. Is it progressing?

Mr. KINDELBERGER. As Mr. Douglas told you, the representatives of the two principal unions refused to meet as a body with O. P. M. and the industry and come to an agreement. The last I heard, which was night before last, from our representative there, they were proposing to go out separately, the C. I. O. group with their followers, and the A. F. of L. with theirs, and try to effect something. I doubt if that will be very successful.

Senator MEAD. Do you mean that the representatives of the two union groups refused to meet jointly with the other representatives of interest?

Mr. KINDELBERGER. Yes; that is the way it was reported to me. That happened out here, you see; that is, the A. F. of L. would work with the companies in which they were represented, and the O. P. M.,

and the C. I. O. would do the same. But the C. I. O. and A. F. of L. apparently refused to go into the same meeting, so that the whole thing could be brought out in an equitable and reasonable manner.

Senator MEAD. So those industries that have A. F. of L. unions will have to work out an agreement, if this situation persists, jointly, while the industries that have C. I. O. unions will have to meet separately and work out, perhaps, the same or a similar agreement?

Mr. KINDELBERGER. That is right, except that it is very difficult to get one group here and another group here working, down different alleys, and come out with stabilization. It means that if one group decides to tackle one phase of the problem and the other decides to tackle the problem, that makes a similar gain there, and neither will be satisfied if they both get that plus something else. I mean it is just one of these long-range cat fights.

Senator MEAD. What about the delivery of your ships, so far as you know, after they are completed? Are they promptly dispatched and, to your knowledge, are they put to use?

Mr. KINDELBERGER. We have no difficulty with that whatever, sir. We have been shipping planes to England since October 1938. We started shipping trainers over there at that time.

Senator MEAD. 1938?

Mr. KINDELBERGER. Yes.

Senator MEAD. Are you still shipping planes to England?

Mr. KINDELBERGER. We are shipping them to Canada. We are flying them to Canada, rather, and some are being sent to England, but comparatively few. We are also sending some to Rhodesia, where there is a big flying school, and we have people over there, people in New Zealand, where there is a flying school. We have some people down in Australia, where they are manufacturing these planes under license, at the rate of some 20 a week, doing a nice job. Also Canada is manufacturing our planes under license, the license we drew up with them in 1938.

Senator MEAD. But, no matter where these planes are being sent, to Australia, Rhodesia, or Canada, they are for Great Britain. Is that it?

Mr. KINDELBERGER. Yes.

Senator MEAD. And these other ships that are being manufactured under license in Los Angeles are for Great Britain?

Mr. KINDELBERGER. The ones that are being manufactured in Australia and Canada under our license are for Great Britain. We are not shipping anything but trainers at the moment. All of our bomber production is being taken by the Government.

Senator MEAD. Are you shipping any planes to Pacific ports for our Nation or other nations, other than Great Britain?

Mr. KINDELBERGER. No. The bombers are all being taken by the Army and are being used, I believe, to fill the domestic requirements first. Actually, we don't know what happens to them after they leave the back door except, if some grief or trouble might develop, and we have a service man working on them. As long as we don't hear about them, that is the last of them, of course.

Senator MEAD. And they are leaving the back door rapidly?

Mr. KINDELBERGER. Well, in spurts; yes. We are pretty close to schedule. We are ahead of schedule on some jobs. We finished one lot of trainers for England this spring, 6 months ahead of contract, and one for Canada 7 months ahead, and we finished a bunch for the

Government, to get this training program started, 7 months ahead of the contract requirements. With the bombers, we are just about on an even keel, because of changes, delays. We are building up a tremendous backlog of parts. While they are not going out, the work is going on. So, once the difficulties are overcome, there will be very rapid delivery. The same with the fighter. It has been held up, due to engines and flight testing.

Senator MEAD. So, in most part, your output is either going to the Army or Great Britain ultimately?

Mr. KINDELBERGER. That is right. Everything we have on contract at the present time is for the Army or Great Britain, with the exception of some bombers for the Dutch East Indies.

Senator MEAD. How many?

Mr. KINDELBERGER. One hundred sixty.

Senator MEAD. Well—that is all right, just a small number.

Mr. KINDELBERGER. The plant in California here is eventually to become a bomber plant entirely, as is the one in Kansas City. The one in Dallas is concentrating completely on trainers. There are thousands of them to build for the Army and Great Britain.

Senator MEAD. Well, as soon as they reach the back door, they are taken away very promptly?

Mr. KINDELBERGER. Yes, sir. You see a lot of them out there but sometimes there is a missing part. When we get an airplane ready to fly away, with all the parts in and everything working, we have no trouble getting rid of it. We are getting them away quite rapidly.

The CHAIRMAN. Thank you, Mr. Kindelberger.

Mr. MONROE. Do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. MONROE. I do.

TESTIMONY OF ROBERT MONROE, DIRECTOR OF PURCHASES, NORTH AMERICAN AVIATION CORPORATION, LOS ANGELES, CALIF.

The CHAIRMAN. Mr. Monroe, we are particularly interested in your ability to get deliveries on fundamental parts and metals. Will you please explain to this committee, for the record, any difficulties that you are now having and, in your opinion, the cause of those difficulties?

Mr. MONROE. We are having considerable difficulty in the securing of materials, which basically refers back to raw materials. Steel is a subject that you have mentioned, which is becoming very bad.

The CHAIRMAN. We are very much interested in that steel situation. Just what is the cause of the shortage so far as the airplane industry is concerned?

Mr. MONROE. As previously mentioned, the steel as used by the aircraft industry is mostly alloy steel. The quantities that the various companies purchase are rather small for a steel mill to roll. We have been refused many times deliveries by the various steel mills in the country, stating that it was impossible to roll it, the quantity being too small.

The CHAIRMAN. Is there a possibility of the airplane industry as a whole consolidating the necessary orders for these parts so as to give the steel mills a chance to roll it economically?

Mr. MONROE. The aircraft industry had a meeting at Dayton 2 weeks ago, at which time it was suggested by this company that the scheduling of steel should be taken over by the scheduling unit at Wright Field, who at the present time is making allotments on aluminum products. We believe that that is about the only solution for it, the allotment of steel, in that it would combine all orders in one place, as is now being done on aluminum products, and then allot it to the various concerns.

At this meeting the O. P. M. had three committees formed, one on the east coast, one on the west coast, and one for the Midwest. These committees are now working to standardize on sizes of steel, which is another item that is very bad, there are so many, many sizes. That is being done now. The west coast meeting is to take place this coming Saturday to standardize on sizes and heat treatment of steel. But we still believe that it should be done in one place in the country, so that the consolidated requirements are known, by some order of the Government, and the proper allotments made.

The CHAIRMAN. What is the attitude of your company toward subletting contracts to small manufacturers?

Mr. MONROE. We are subletting contracts on various forms of work to many concerns in this vicinity, also in the East. We believe that is a solution, although in our particular case there isn't quite as much as some of the other companies, in that our plant is pretty well self-sustained. But we do believe that it should be allotted to the small companies in the vicinity.

The CHAIRMAN. Are you having any difficulty with deliveries of other vital parts besides the metal parts?

Mr. MONROE. Most everything refers back to basic metals, which would be steel and dural and copper and brass, and so forth. Most everything that we use reverts back to some raw metal.

The CHAIRMAN. And there seems to be a real shortage in all those fundamental metals?

Mr. MONROE. Yes. It isn't effective just yet, but in the orders that we are placing, or trying to place for requirements for the first of the year. It is impossible to place the orders. We are not able to do it. As I say, basic materials being the main cause, it would refer to many items that we try to purchase, on which we are now receiving deliveries of something like 8 or 9 and 10 months.

Senator WALLGREN. How many factories do you patronize, your plant?

Mr. MONROE. We have approximately, at the present time, about 860 different companies that we patronize.

Senator WALLGREN. You mean you have to buy parts from those people? I suppose they are all over the United States.

Mr. MONROE. Yes, sir; they are. We have elaborated on that a little bit in the last 6 or 8 months. Where the various companies in the country, making these assemblies or parts, have become overloaded, we have split it up, secured new sources of supply, thereby increasing our list of vendors that we deal with.

Senator WALLGREN. What are the most bulky pieces that you have to purchase, large sheets of aluminum?

Mr. MONROE. The raw stocks of material are the bulkiest part of the material, like steel or dural or copper or brass. Those are the bulky items.

Senator WALLGREN. And aluminum, too?

Mr. MONROE. Yes; all items of aluminum that are rather bulky, except rivets and castings.

Senator WALLGREN. The shipment of these larger pieces of aluminum affords a transportation problem, does it not?

Mr. MONROE. It hasn't become a problem as yet.

Senator WALLGREN. What I am getting at is—I am getting around to that point again—I believe we ought to fabricate these things on the west coast, especially bulky items.

Mr. MONROE. Of course, that is the advantage that the East has over the West. It is so much better to walk into a mill and see what they are doing and have them make the necessary items that are required. We have no facilities like that out on the west coast.

Senator WALLGREN. I am going back to something I have repeated over and over again, that the method they have used, in bringing bauxite up to Mobile, then processing aluminum and shipping the aluminum out to Bonneville, there making it into aluminum ingots, and shipping it back to Pennsylvania and fabricating it into aluminum parts, boxing them up and shipping them out to your plant and Vultee and Douglas and other airplane plants—

Mr. MONROE (interposing). That is correct.

Senator WALLGREN. All of that affords the Government a miserable transportation problem. Within the next 3 or 4 months the chances are we will have a keener problem to deal with.

I am just wondering if some of those items might be manufactured on the west coast, in close proximity to Bonneville, or wherever this cheap power is being used in manufacturing aluminum.

Mr. MONROE. We of North American Aviation have suggested several times to the Aluminum Co. to expand their facilities on the west coast. They started out here in Oakland first, then moved to Los Angeles. As I say, several times we have made this suggestion that they expand it, so that we can get more of the Aluminum Co. items manufactured on the west coast. They have expanded to a small degree, compared to the amount used.

We have also requested steel companies to look into the matter of having a rolling mill out here, or at least a fabricating plant, which to date we haven't received. They are fabricating some aluminum parts on the west coast, but very few.

Senator WALLGREN. They are talking a great deal about aluminum plants on the west coast but they don't mean anything at all. I mean they employ very few people.

Mr. MONROE. That is right.

Senator WALLGREN. When the metal is processed or made, it just goes right back to the east coast in ingots, and there it is fabricated. The fabricating plants are really what give work to the people.

Mr. MONROE. That is right.

Senator WALLGREN. We on the west coast are rather interested in seeing that fabricating plants are established out here and would like to take advantage of the situation, for one reason. We know, common sense will tell you, that it is the only way to do the job.

Mr. MONROE. We will say that we have suggested it several times to the Aluminum Co. They have expanded some but not very much.

Senator WALLGREN. Would the creation of a steel plant on the

west coast, manufacturing a high grade of steel, be of any special value to the airplane industry in this area?

Mr. MONROE. It would be of advantage. Of course, the alloy steels that the aircraft companies use, again I will say, run into very small tonnage. The mills are already set up in the East. They have the necessary heat-treating equipment. We don't think that would be feasible or right, but a steel mill in general, here on the west coast might do a portion of that work for an emergency, or the general steel picture.

Senator WALLGREN. With construction steel it would make quite a little difference, wouldn't it?

Mr. MONROE. Very definitely. All the steel we purchase has to come from the East.

Senator MEAD. It has been brought to the attention of our committee, while here in Los Angeles, that there are a number of rather substantial, separate, and independent establishments, manufacturers, and so forth, out here, who could be of substantial help to the airplane industry, that are not receiving contracts either from the industry itself or from the Government.

It occurs to me that a pooling process whereby all the industries that you have available out here could be put to full use, would be beneficial to the industry, would keep idle machines in operation, and would give work to skilled workers that are now being laid off right in the midst of this shortage of skilled workers.

To illustrate, a manufacturer of aluminum and steel parts came before our committee and, under oath, explained that he was forced to lay off, furlough for an indefinite period, some 125 or 150 skilled mechanics. He explained that he had four, five, or six hundred men working for him at one time but he said:

I am denied either a contract from the airplane industry for aluminum or steel parts, or both, and I am denied, on the other hand, participation in the national defense program, because of the manner in which the contracts are let.

He is located in the Los Angeles area. Information has been brought to me direct that there is an airplane parts manufacturer with a very substantial machine shop, and machine workers, who is without a parts program from any aviation industry located in this area and who has not now a contract from the Government. He is keeping his plant going because he has a contract with a foreign government, and that will run out in the very near future.

Now, if we are going to expand existing facilities and those large plants are going to contract only with the larger industries of other locations; if we are going to bring skilled workers from distant parts, if we are going to expand our housing facilities in certain areas and, while doing that, shut down plants, put machines in idleness, lay off skilled workers in the same area, it just doesn't make sense.

So, if the evidence that has been submitted to us is analyzed, it will reveal a very interesting picture of a chaotic condition which will result in what the chairman has already explained, making bigger industries bigger and driving little industries out of the picture altogether.

It seems to me that every available facility on the west coast ought to be used before we bring these additional facilities to the west coast. That could only be done by a meeting of all of the various

activities that could contribute to the manufacture of the airplane, and a desire to see that they were all put to work, that every idle machine was in operation before a new machine would be ordered, that every skilled worker was working before some new skilled worker was employed.

Has any effort been made by the aviation industries, with these huge Government contracts running into the billions, to assimilate all of the small, independent manufacturers and contractors of the coast, and let them participate fully in this program?

Mr. MONROE. Senator, I am sure that has been done, and I am sure the industry as a whole has taken advantage of the facilities here in the west coast. Of course, the plants in and around Los Angeles have expanded very fast. I mean the small plants that have been making the various items for the industry. The larger programs in the aircraft industry itself really haven't taken effect, in that we are talking about four-motor bombers now, which is a very huge program. When the releases for the necessary work are put into this area, I am sure they are going to fill up all the shops that we have here.

Of course, I will say this, that in the East the shops have expanded a good deal more than they have out here. We have consistently and always tried to bring some of the manufacturers out here on the west coast, to make a portion of their work out here. We have been successful to a certain extent, but I think, instead of expanding the places in the East so much, if they would utilize some of the space available out here, it might relieve some of the machinery picture, for instance.

Senator MEAD. There isn't any doubt but what certain expansions are very necessary. Of course, there has been an abundance of expansion right around this area, but let's go to some other city, for instance, San Diego, or San Francisco, just to get out of here. The Government is pouring in hundreds of millions of dollars in plant expansion. We will say every bit of this particular plant is owned by the Government. The owner hopes some day, if things turn out favorable to him, to buy the plant, but if the situation develops unfavorably, he will say to Uncle Sam, "It is your plant." Now, the entire plant belongs to the Government, and it is constantly expanding. The Treasury is paying for not only all of the labor and all of the profit but all of the policing of that plant. And while they are expanding that plant, while they are buying new machinery for that plant, there is another plant right across the street that is owned by a local interest. He has been operating that plant for 50 years. He has 100 machines in that plant. He has two or three hundred skilled workers in that plant.

While the Government is pouring its money into this plant, the same Government money is putting that little independent businessman completely out of business. Cobwebs are thick and abundant in his plant. His machinery is rusting away in idleness, and it is being done with the power of the money of the Federal taxpayers, of which he is a fairly substantial one. He owns his plant; he owns all the machinery in his plant. His workers have their own homes. They create no housing problem in which there is a subsidy, if there is such a program necessary. And yet we are putting him completely out of business, by the thousands. If Hitler, with a great bombing squadron

and no opposition, was allowed to center his fire on these small businessmen that are in that category, he couldn't destroy them any more completely than the system we have now, which, unfortunately, hasn't the sympathetic consideration of the big manufacturer, that system that is going on right under our very eyes. So something ought to be done about it.

Evidence has been submitted to this committee here in Los Angeles which would lead me to believe that the airplane manufacturers are not as sympathetic with the small, independent manufacturer in that particular field as they should be. As a result, this chaotic program, requiring housing, plant expansion, priorities, and everything else, is developing in our midst, whereas if every machine, every plant, and every worker was put to work before new ones were utilized, this program would develop more sanely and more logically. So it seems to me that the industry here ought to get together and see to it that every available machine, plant, and worker is working before anything new comes out here. That is just a suggestion, and it is just what I gleaned from the record.

The CHAIRMAN. Any further statement you want to make?

Mr. MONROE. I want to say one more thing, getting back to material again.

The CHAIRMAN. Yes; we are very much interested.

I want to say that Senator Mead is merely emphasizing what this committee has been fighting for ever since it was organized on the 1st day of March. So, proceed with your statement.

Mr. MONROE. I understand. On the securing of material and the jobbing of material in various warehouses, we have had lots of trouble in that way. There hasn't been any method set up to date which gives the jobber or the distributor of material any priority whatsoever to secure a stock of material which is very vital to the industry. These various changes coming up in the construction of an airplane always constitute new materials. The jobbers and distributors are perfectly willing to carry these stocks, but there haven't been any facilities for them to do it.

The CHAIRMAN. Thank you very much, Mr. Monroe.

Senator WALLGREN. Let me ask you one more question. (I have to get on my pet hobby here.) Are you using magnesium to any extent?

Mr. MONROE. We are using some; yes.

Senator WALLGREN. How do you use it?

Mr. MONROE. In castings mostly.

Senator WALLGREN. In no fitting or no parts?

Mr. MONROE. Well, that would be castings; in fittings and parts.

The CHAIRMAN. That is all.

Mr. Irving, do you solemnly swear to tell the truth, the whole truth, and nothing but the truth, so help you God?

Mr. IRVING. I do.

TESTIMONY OF GAGE H. IRVING, VICE PRESIDENT, NORTHROP AIRCRAFT, INC., HAWTHORNE, CALIF.

The CHAIRMAN. Will you be seated and give your name and connection to the reporter, please?

Mr. IRVING. Gage H. Irving.

The CHAIRMAN. Mr. Irving, you heard the testimony of the previous witnesses, and we also interviewed you the other day in your plant. Have you anything constructive to add to what has already been said, for the benefit of this record?

Mr. IRVING. The problems are very much in common with those of the Douglas Co. and North American. We have the same problems, with minor variations, as covered by them.

The CHAIRMAN. Do you have difficulty in getting fundamental metals such as steel, copper, brass, fittings made of those metals?

Mr. IRVING. Yes, sir.

The CHAIRMAN. You have the same sort of difficulties as North American and Douglas are struggling with?

Mr. IRVING. Right.

The CHAIRMAN. Have you had the labor difficulties that they have had?

Mr. IRVING. As Mr. Douglas explained, we have taken part in the regional committee work toward stabilization and put into effect the changes approved by the Army and the Navy and the O. P. M. the middle of this month. Like the Douglas Co., we were represented at the meeting this week in Washington. We understand that they have come to no definite conclusions on that, in view of the fact that the two labor unions have refused to sit together with the representatives of the industry. So, we don't know quite where we stand at the moment.

Senator WALLGREN. Your plant is pretty much of an experimental plant, too, isn't it? You do a lot of experimental work?

Mr. IRVING. It is new and growing; yes.

Senator WALLGREN. Out to your plant the other day I saw what you had been doing along the lines of magnesium. Do you care to comment on it at all for the record?

Mr. IRVING. We have done considerable experimental work in the use of magnesium for minor assemblies and, in certain instances, major assemblies of airplanes.

Senator WALLGREN. In your opinion, do you believe that magnesium is a coming metal?

Mr. IRVING. We have very great hopes for it.

Senator WALLGREN. You have been very successful in welding it, have you not?

Mr. IRVING. To date; yes.

Senator WALLGREN. And in treating it against corrosion?

Mr. IRVING. We believe so; yes.

Senator WALLGREN. Have you seen airplane wings made from magnesium?

Mr. IRVING. I have.

Senator WALLGREN. Without using rivets? What would the saving in speed amount to, from the construction of a wing?

Mr. IRVING. I am not particularly well qualified to express an opinion on that. The saving from the use of magnesium is largely in what we hope to be easier methods of construction, quicker methods, saving in cost.

Senator WALLGREN. Saving in weight?

Mr. IRVING. Not to any very great extent, because, due to the difference in the strength values of aluminum alloys and magnesium, you have to use larger sections of magnesium to match the other. But

with the over-all saving, simplification of design, ease of manufacture, we think it makes it very well worth while to carry on experimentation work.

Senator WALLGREN. In experiments you have seen, you would say that it is a very important metal today in the airplane industry, or will become one of the most important ones?

Mr. IRVING. Very definitely.

Senator WALLGREN. I know that you have seen experiments that are rather unusual, and I merely wanted to add just that word in the record, because the committee is going to carry a little further on with this magnesium investigation.

The CHAIRMAN. Do you have anything else to ask, Mr. Fulton?

Mr. FULTON. No. Of course, this magnesium is very important, if you can get a development that will save riveting. Can you tell us how many horsepower it takes merely to push the rivets on a plane? We have been told it is a very large number.

Mr. IRVING. I am afraid I couldn't tell you.

Mr. FULTON. I am informed, if you could avoid riveting, you not only save labor but save air stress, it would go faster with the same amount of power, need less gasoline storage, and so on.

The CHAIRMAN. Mr. Irving, we are very appreciative of your coming down here. We are, I think, better informed on the industry and its problems. Have you any Federal contracts?

Mr. IRVING. Yes; we have.

The CHAIRMAN. Who financed your plant-expansion program?

Mr. IRVING. Privately financed.

The CHAIRMAN. Privately financed? You are using no Government money for expansion at all? What are your profits on Government contracts? How are they figured?

Mr. IRVING. We have made no profits on Government contracts to date. The losses have been in the neighborhood of half a million dollars for the past year.

The CHAIRMAN. Do you expect to break even on those Government contracts?

Mr. IRVING. It is questionable.

Senator WALLGREN. I just wanted to go back to the magnesium, the matter of constructing a plane, you might say, wholly from this metal. You know that such a plane is being constructed.

Mr. IRVING. We are getting in a rather confidential vein, I believe, sir.

Senator WALLGREN. Well, I merely wanted to get in the record the fact that efforts were being made to work on it.

Mr. IRVING. There is no reason why they can't be constructed out of magnesium.

Senator WALLGREN. We are going to experiment along that line and hope that we can build a plane out of magnesium, with magnesium wings, and take advantage of that metal.

The CHAIRMAN. The committee will adjourn until August 25 at the Federal Building in Seattle, Wash., at 10 a. m.

(Whereupon, at 11:30 a. m., the committee recessed until 10 a. m., Monday, August 25, 1941, at Seattle, Wash.)

APPENDIX

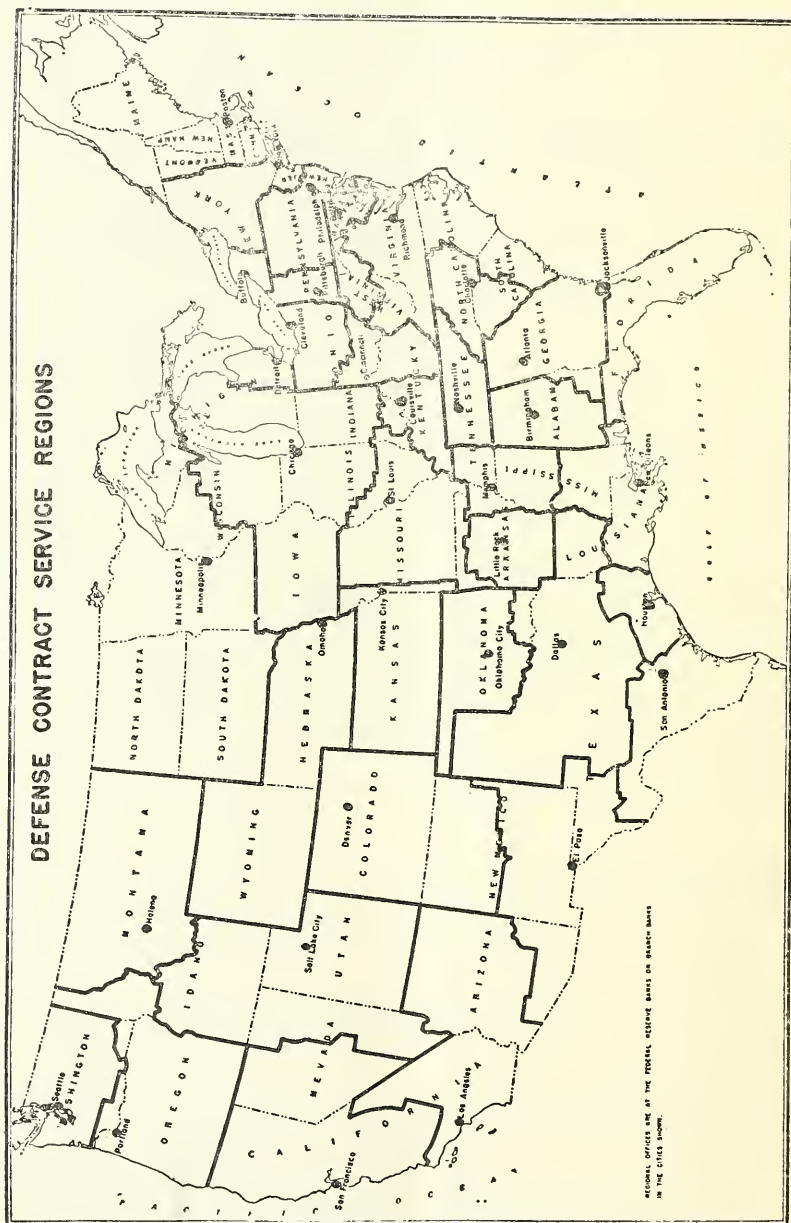
EXHIBIT No. 86

Shipbuilding and ship repair facilities

Yard	Bethlehem owned					Government owned		
	Total cost as at Dec. 31, 1939	Expenditures Jan. 1, 1940, to May 31, 1941	In progress, estimated cost to complete as at May 31, 1941	Total	Approximate present day value of facilities before expenditures under present program	Expenditures to May 31, 1941	Estimated cost to complete	Total
Bethlehem Steel Co.:								
Fore River.....	\$7,723,267	\$1,214,833	\$131,963	\$9,070,063	\$25,000,000	\$6,778,430	\$10,729,070	\$17,507,500
Boston.....	4,438,995	80,600	54,375	4,573,970	8,200,000	2,115,433	3,184,567	5,300,000
New York.....	15,342,152	598,881	572,134	16,513,167	25,000,000	9,297,359	9,192,301	12,900,900
Baltimore.....	8,192,204	662,200	442,955	9,297,359	13,200,000	3,717,599	2,361,235	4,315,850
San Francisco.....	5,282,622	15,459		5,298,081	15,000,000	1,954,615		
San Pedro.....	2,301,760			2,301,760	5,000,000			
Total.....	43,281,000	2,571,973	1,201,427	47,054,400	91,400,000	14,566,077	25,467,173	40,033,250
Bethlehem-Sparrows Point Shipyard, Inc.....	5,291,131	1,096,141	23,098	6,410,370	13,800,000	1,070,421	8,894,979	9,925,400
Bethlehem-Fairfield Shipyard, Inc.....								
Grand total.....	48,572,131	3,668,114	1,224,525	53,464,770	105,200,000	15,636,498	34,322,152	49,958,650

EXHIBIT No. 88

DEFENSE CONTRACT SERVICE REGIONS



EXPANSION OF PRODUCTION BY USE OF SUB-CONTRACTORS

PROCUREMENT OF SMALL ARMS
AMMUNITION MACHINERY

WATERBURY FARREL
FOUNDRY & MACHINE COMPANY
WATERBURY, CONN.
(\$ 7,217,303 FOR FIRST WAVE)

FAY & SCOTT CO. DEXTER, MAINE \$1,058,504.00		FRANKLIN MACHINE CO PROVIDENCE, R.I. \$2,558,500.00		L F FALES CO WALPOLE, MASS \$426,600.00		PACKAGE MAC CO SPRINGFIELD, MASS \$957,810.00		WATERBURY FARREL FOUNDRY & MACH CO WATERBURY, CONN. \$1,502,612.00		CHAMPLAIN MACH CO GARFIELD, N J \$231,000								
RW 512	Col 50 Case Gauging Machines 347,000.00	RW 38	Col 30 Bullet Assemblies Ball Bullet 129,000.00	RW 12A	Col 30 Tracer Bullet Chargers 187,200.00	RW 515	Col 50 Straight Line Loaders 336,000.00	RW 532	Col 50 Tracer Bullet Chargers 283,000.00	RW 42	Col 50 Gauging and Weighing Machines 231,000.00							
July 12	Aug 17	July 4	Aug 10	June 8	July 12	July 16	Aug 21	June 1	July 5	July 10	Aug 16							
RW 513	Col 50 Complete Pound Gauges 218,104.00	RW 41	Col 30 A P Assemblies 672,000.00	RW 50B	Col 50 Trimming Machines 239,400.00	RW 516	Col 50 Straight Line Loaders Tracer Bullets 621,810.00	RW 28	Col 50 Gauging and Weighing Mach 1,008,512.00									
July 8	Aug 20	July 10	Aug 20	June 10	July 15	July 15	Aug 25	June 5	July 25	July 10	Aug 16							
RW 514	Col 50 Plating and Priming Presses 492,000.00	RW 53	Col 50 Tracer Bullet Assemblies 243,000.00															
July 13	Aug 20	June 10	July 43															
Acme Industrial Company / 200 North LaFayette Avenue Chicago, Illinois Mach. Machine Work \$2,000.00	Valley Machine Works 400 Buchanan Street Monroeville, Rhode Island Mach. Machine Work \$4,130.00	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50	W. G. Colwell / 25 Congress Avenue Providence, Rhode Island Mach. Machine Work \$2,528.00	Beese Folding Mach. Co. / Providence, Rhode Island General Machine Work \$1,980.00	American Sheet Metal Works Providence, Rhode Island Steel Fabricating \$1,658.00	Benken Gear Works Providence, Rhode Island General Machine Work \$7,390.00	American Sheet Metal Works Providence, Rhode Island General Machine Work \$4,706.58	Remington Machine Company Providence, Rhode Island General Machine Work \$350.00										
Farber Company / Division Street Providence, Rhode Island Steel Metal Works \$7,065.00	Fay & Scott Providence, Rhode Island Iron & Brass Foundry \$2,796.45	Goldsmith Mfg. Co. / 111 South Street Providence, Rhode Island Mach. Machine Work \$2,796.45	Charles E. Owen / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$2,796.45	Beese Button Hole Mach. Co. / Providence, Rhode Island Mach. Machine Work \$52.00	Ballance Jarves Company Providence, Rhode Island Connecticut Springs \$1,017.50	Care Building Company Providence, Rhode Island Steel Fabricating \$385.00	Atwood Machine Company Providence, Rhode Island General Machine Work \$4,706.58	CHAMPLAIN MACHINE CO \$336.00 01% SUB-LET										
Hemlock Company / Providence, Rhode Island Mach. Machine Work \$126,597.50	R. L. Jones & Co. / 301 Pine Street Providence, Rhode Island Iron & Brass Foundry \$2,796.45	William Leard Company / 111 South Street Providence, Rhode Island Mach. Machine Work \$2,796.45	Liberty Tool & Eng. Works / 135 Georgia Avenue Providence, Rhode Island Mach. Machine Work \$3,670.00	Pneumatic Scale Company Providence, Rhode Island Mach. Machine Work \$1,172.00	Highland Motor Grinding Co. / Providence, Rhode Island Mach. Machine Work \$151.00	Frank W. Hill Machine Works Providence, Rhode Island Mach. Machine Work \$1,100.00	Highland Motor Grinding Co. / Providence, Rhode Island Mach. Machine Work \$1,100.00											
Malin Saw Service / 22 Field Street Providence, Rhode Island Mach. Machine Work \$4,796.00	Henry Owen & Company / 1738 Main Street Providence, Rhode Island Mach. Machine Work \$4,126.12	Providence Machine & Tool Co. / 17 Tarnet Street Providence, Rhode Island Mach. Machine Work \$4,855.00	Providence Machine & Tool Co. / 17 Tarnet Street Providence, Rhode Island Mach. Machine Work \$4,855.00	Deming Manufacturing Co. / Providence, Rhode Island Mach. Machine Work \$1,100.00	John W. Leary Company Providence, Rhode Island General Machine Work \$1,100.00	John W. Leary Company Providence, Rhode Island General Machine Work \$1,100.00	John W. Leary Company Providence, Rhode Island General Machine Work \$1,100.00											
Jaylor Machine Company / Sagerville Providence, Rhode Island Mach. Machine Work \$1,980.00	Standard Machinery Co. / 1475 Main Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Sterner Products Co. / 1475 Main Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Fairfax Mfg. Co. / 1475 Main Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Brown & Wiles Company Providence, Rhode Island Mach. Machine Work \$1,980.00	Moore Drop Forging Company Providence, Rhode Island Mach. Machine Work \$1,980.00	Philosophy Machine Works Providence, Rhode Island Mach. Machine Work \$1,980.00	Philosophy Machine Works Providence, Rhode Island Mach. Machine Work \$1,980.00											
Terrell Mfg. Mach. Co. / Providence, Rhode Island Mach. Machine Work \$1,980.00	Thomas-McDonald Press Providence, Rhode Island Mach. Machine Work \$1,980.00	Valley Machine Works Providence, Rhode Island Mach. Machine Work \$1,980.00	Woodstock Gear Company Providence, Rhode Island Mach. Machine Work \$1,980.00	Milk & Young Company Providence, Rhode Island Mach. Machine Work \$1,980.00	Joseph T. Ryan Providence, Rhode Island Mach. Machine Work \$1,980.00	Central Machine Company Providence, Rhode Island Mach. Machine Work \$1,980.00	Central Machine Company Providence, Rhode Island Mach. Machine Work \$1,980.00											
S. B. Brooks Co. Inc. / 118-120 Broad Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Capital Building Co. / 240 Broad Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Chapman-Gillett Co. / 240 Broad Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Hemlock Company / 240 Broad Street Providence, Rhode Island Mach. Machine Work \$1,980.00	St. Gatien Carville Providence, Rhode Island Mach. Machine Work \$1,980.00	Hemlock Company / 240 Broad Street Providence, Rhode Island Mach. Machine Work \$1,980.00	Harlowe Plant Works Providence, Rhode Island Mach. Machine Work \$1,980.00	Harlowe Plant Works Providence, Rhode Island Mach. Machine Work \$1,980.00											
Liberty Tool & Eng. Co. / 235 Georgia Avenue Providence, Rhode Island Mach. Machine Work \$1,980.00	Providence Machine & Tool Co. / 17 Tarnet Street Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00											
Henry Owen & Company / 1738 Main Street Providence, Rhode Island Mach. Machine Work \$4,126.12	William Leard Company / 111 South Street Providence, Rhode Island Mach. Machine Work \$2,796.45	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50	Allen Textile Mach. Co. / 301 Pine Street Providence, Rhode Island Mach. Machine Work \$1,231.50											
Deane Building Company / Dexter, Maine Mach. Machine Work \$1,980.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00											
Standard Steel Spec. Co. / Providence, Rhode Island Mach. Machine Work \$1,980.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00	Waterbury Iron & Steel Providence, Rhode Island Mach. Machine Work \$4,855.00											

EXHIBIT No. 89

EXECUTIVE ORDER

ESTABLISHING THE OFFICE OF PRICE ADMINISTRATION AND CIVILIAN SUPPLY IN THE EXECUTIVE OFFICE OF THE PRESIDENT AND DEFENDING ITS FUNCTIONS AND DUTIES

By virtue of the authority vested in me by the Constitution and the statutes, and in order to define further the functions and duties of the Office for Emergency Management with respect to the national emergency as declared by the President on September 8, 1939, for the purpose of avoiding profiteering and unwarranted price rises, and of facilitating an adequate supply and the equitable distribution of materials and commodities for civilian use, and finding that the stabilization of prices is in the interest of national defense, and that this Order is necessary to increase the efficiency of the defense program, it is hereby ordered:

1. There shall be in the Office for Emergency Management of the Executive Office of the President an Office of Price Administration and Civilian Supply, at the head of which shall be an Administrator appointed by the President. The Administrator shall receive compensation at such rate as the President shall determine, and, in addition, shall be entitled to actual and necessary transportation, subsistence, and other expenses incidental to the performance of his duties.

2. Subject to such policies, regulations, and directions as the President may from time to time prescribe, and with such advice and assistance as may be necessary from the other departments and agencies of the Federal Government, and utilizing the services and facilities of such other departments and agencies to the fullest extent compatible with efficiency, the Administrator shall:

(a) Take all lawful steps necessary or appropriate in order (1) to prevent price spiraling, rising costs of living, profiteering, and inflation resulting from market conditions caused by the diversion of large segments of the Nation's resources to the defense program, by interruptions to normal sources of supply, or by other influences growing out of the emergency; (2) to prevent speculative accumulation, withholding, and hoarding of materials and commodities; (3) to stimulate provision of the necessary supply of materials and commodities required for civilian use, in such manner as not to conflict with the requirements of the War, Navy, and other departments and agencies of the Government, and of foreign governments, for materials, articles, and equipment needed for defense (such requirements are hereinafter referred to as "military defense needs"); and (4) after the satisfaction of military defense needs to provide, through the determination of policies and the formulation of plans and programs, for the equitable distribution of the residual supply of such materials and commodities among competing civilian demands.

(b) Make studies of the Nation's civilian requirements for materials and commodities, the supply of goods and services, the status and trend of prices and factors thereof, and the impact of the defense program upon civilian living standards; exercise the powers of the President in requesting such studies pursuant to Section 336 (a) of Title III of the Tariff Act of 1930 (Title 19, U. S. C., Sec. 1336 (a)); and conduct such investigations, hold such hearings, and obtain such reports as may be necessary or desirable to carry out this Order.

(c) Determine and publish, after proper investigation, such maximum prices, commissions, margins, fees, charges, or other elements of cost or price of materials or commodities, as the Administrator may from time to time deem fair and reasonable; and take all lawful and appropriate steps to facilitate their observance.

(d) Advise and make recommendations to other departments and agencies, whenever the Administrator deems it appropriate, in respect to the purchase or acquisition of materials and commodities by the Government, the prices to be paid therefor, and in respect to such of their other activities as may affect the price of materials and commodities.

(e) Inform the Office of Production Management of the amount, character, and relative importance of materials and commodities needed for civilian use; and advise and consult with the Office of Production Management with reference to its procurement, production, planning, priority, and other actions the effect of which may be to diminish the supply of materials and commodities available for civilian use.

(f) Establish and maintain liaison with such departments and agencies of the Government and with such other public or private agencies and persons as the Administrator may deem necessary or desirable to carry out the provisions of this order.

(g) Formulate programs designed to assure adequate standards for, and the most effective use of, consumer goods; stimulate the utilization of substitutes by civilians for consumer goods and commodities of limited supply; develop programs with the object of stabilizing rents; and promote civilian activities which will contribute to the purposes of this order.

(h) Recommend to the President the exercise of the authority vested in him by the following-named acts, whenever, in the opinion of the Administrator, such action by the President will enable the Administrator to carry out and secure compliance with the provisions of sections 2a and 2c of this order:

- (1) Section 9 of the Selective Training and Service Act of 1940 (Public, No. 783, 76th Cong.).
- (2) Section 120 of the National Defense Act (title 50, U. S. C., sec. 80).
- (3) Section 1 (15) of title 49, U. S. C.
- (4) The act of October 10, 1940 (Public, No. 829, 76th Cong.).

(i) Perform the functions and exercise the authority vested in the President by the following-named acts, insofar as and only to the extent that the authority conferred by such acts will, in the opinion of the Administrator, enable him to carry out and secure compliance with the provisions of sections 2a and 2c of this order: Section 713 (a)-7 of title 15, U. S. C., Supp. V; Section 4 of the Act approved June 7, 1939 (Title 50, U. S. C., Supp. V., Sec. 98c); and Section 5 of the Reconstruction Finance Corporation Act, as amended by the Act approved June 25, 1940 (Public, No. 644, 76th Cong.): subject to the disapproval by the Secretary of War or the Secretary of the Navy of each proposed action thereunder.

(j) Advise upon proposed or existing legislation, and recommend such additional legislation as may be necessary or desirable, relating to prices, rents, or the increase in supply and the equitable distribution of materials and commodities for civilian use.

(k) Keep the President informed in respect to progress made in carrying out this order; and perform such other related duties as the President may from time to time assign or delegate to him.

3. The Administrator may provide for the internal organization and management of the Office of Price Administration and Civilian Supply, and may appoint such advisory committees as he finds necessary to the performance of his duties and responsibilities. The Administrator shall obtain the President's approval for the establishment of the principal subdivisions of the Office and the appointment of the heads thereof.

4. There shall be in the Office of Price Administration and Civilian Supply a Price Administration Committee consisting of the Administrator as Chairman, the Secretary of the Treasury, the Secretary of Agriculture, the Federal Loan Administrator, the Chairman of the Tariff Commission, the Chairman of the Federal Trade Commission, the Director General and Associate Director General of the Office of Production Management, or such alternate as each may designate, and such other members as the President may subsequently appoint. The Committee shall from time to time, upon request by the Administrator, make findings and submit recommendations to the Administrator in respect to the establishment of maximum prices, commissions, margins, fees, charges, and other elements of cost or price of materials or commodities as provided under paragraph 2c above.

5. Within the limits of such funds as may be appropriated to the Office of Price Administration and Civilian Supply or as may be allocated to it by the President through the Bureau of the Budget, the Administrator may employ necessary personnel and make provision for necessary supplies, facilities, and services. However, the Office of Price Administration and Civilian Supply shall use such statistical, informational, fiscal, personnel, and other general business services and facilities as may be made available to it through the Office for Emergency Management or other agencies of the Government.

FRANKLIN D. ROOSEVELT.

THE WHITE HOUSE, April 11, 1941.

EXHIBIT No. 90

Agreement No. _____
Principal Contract No. _____

EQUIPMENT RENTAL AGREEMENT WITH RECAPTURE PROVISION
(For Use Under Cost-Plus-A-Fixed-Fee Contract)

Lessee: _____
Lessor: _____
Place: _____

THIS AGREEMENT, entered into this ____ day of _____, 19__, by

*a corporation, organized and existing under the laws of the State of _____

*a partnership consisting of _____

*an individual trading as _____
of the City of _____

in the State of _____

hereinafter called the Lessor, and _____

*a corporation, organized and existing under the laws of the State of _____

*a partnership consisting of _____

*an individual trading as _____
of the City of _____

in the State of _____

hereinafter called the Lessee,

WHEREAS, the Lessee has heretofore, to wit, on the _____ day of _____, 19__, entered into a contract hereinafter called the principal contract, with the United States of America, hereinafter called the Government, to construct for the Government _____

*Delete all lines which do not apply.

at or near _____

WHEREAS, the Lessor has agreed to rent to the Lessee for use in connection with the afore-mentioned construction the equipment listed on Schedule "A" attached hereto and made a part hereof; and

WHEREAS, the Lessor has read and is familiar with each and every part of said principal contract, and the respective rights, powers, benefits, and liabilities of the Lessee and the Government thereunder;

NOW, THEREFORE, THIS AGREEMENT WITNESSETH: That the parties hereto do mutually agree as follows:

ARTICLE I

The Lessor shall furnish the equipment listed on Schedule "A" attached hereto and made a part hereof. Equipment shall be in condition to render efficient, economical and continuous service and shall be equipped with all mechanical devices and equipment required by Federal, State, and local authorities, provided that nothing in this article shall be construed to limit the authority of the Contracting Officer to prohibit the use of any piece of equipment which, in the opinion of the Contracting Officer is mechanically unsafe for use. Each piece of equipment shall be registered by the Lessor with all Federal, State, and local authorities requiring registration, and registration plates or other evidence of registration shall be displayed in accordance with the requirements of the registering authority. Each piece of equipment shall be clearly marked with the identification number assigned to it on Schedule "A".

ARTICLE II

All repairs except those resulting from defective workmanship or material used in the construction of the equipment, found to be necessary after acceptance of the equipment at the site of the work, shall be made by the Lessee. All fuel and lubricants for the operation of such equipment will be furnished by the Lessee.

ARTICLE III

Equipment is rented without operators. Any operator deemed incompetent by the Lessor and the Lessee shall be removed from any piece of equipment. Should the Lessor and the Lessee fail to agree as to the competency of any operation the matter shall be submitted to the Contracting Officer and his decision shall be final as to the parties hereto.

ARTICLE IV

The Lessor shall initiate shipment of the equipment to the site of the work immediately. It is estimated that the equipment will be used for approximately ——— working hours, but the Lessee reserves the right to increase or decrease the rental period.

ARTICLE V

(a) The Lessor shall be paid at the rate prescribed in Schedule "A" attached hereto and made a part hereof. The rental period shall begin on the delivery of such equipment to a common carrier for shipment to the site of the work, as evidenced by bill of lading covering such shipment or other evidence satisfactory to the Contracting Officer, and shall terminate, unless title to the equipment passes to the Government at an earlier date, on the date of removal of such equipment from the site of the work, as evidenced by a receipt signed by the Lessor, provided such equipment is removed within a reasonable length of time after notice by the Lessee or the Contracting Officer to the Lessor that such equipment is no longer required. If the equipment is not removed within a reasonable length of time, the rental shall terminate on the date of the notice that such equipment is no longer required. If such equipment does not meet the requirements of Article I when it arrives at the work site the rental period therefor shall not begin until such equipment shall have been placed, at the expense of the Lessor, in condition to satisfy all the requirements of Article I. No transportation charges for the shipment therefor shall be paid by the Lessee for any piece of equipment which arrives at the work site in other than sound and workable condition if such piece of equipment cannot be placed in sound and workable condition within a reasonable length of time. The determination as to whether such equipment is in sound and workable condition and what is considered a reasonable length of time shall, in every instance, be made by the Contracting Officer. Rental payments will be made monthly on or about the 10th of the month for the previous calendar month.

(b) Transportation will be paid by the Lessee, F. O. B. cars, at original point of shipment and return transportation F. O. B. cars to original point of shipment or equivalent mileage, but charges for transportation of any pieces of equipment over a distance in excess of 500 miles must have the written approval of the Contracting Officer. If transportation is accomplished by any method other than rail, there shall be paid the actual cost of such transportation, as shown by evidence satisfactory to the Contracting Officer. In no event shall the payment made for return transportation exceed the payment made for transportation to the job site. Only loading and/or unloading costs incurred at the work site will be paid by the Lessee.

ARTICLE VI

Failure of any piece of equipment to perform to the satisfaction of the Lessee or the Contracting Officer shall be sufficient cause for the termination of the contract by the Lessee, or the requirement by the Lessee that the equipment be replaced with equipment of satisfactory performance. In the event of such replacement, all rental paid for the piece of equipment replaced shall be considered, for the purposes of Article VII, to have been paid for the new piece of equipment.

ARTICLE VII

When and if the total rental paid to the Lessor for any piece of equipment shall equal the value thereof, plus one percent per month for each month or fraction thereof such piece of equipment shall have been in use, no further rental shall be paid to the Lessor and title to the equipment shall vest in the Government, the Lessor delivering to the Government free of any and all liens and encumbrances title to such piece of equipment. At the completion of the work being performed by the Lessee under the principal contract, or upon termination of the principal contract, as provided in Article VI of the principal contract, the Government may, at its option, purchase any piece of equipment by paying the Lessor the differ-

ence between the valuation of such piece of equipment, plus one percent per month for each month or part thereof such piece of equipment shall have been in use and the total rental therefor paid for such piece of equipment, provided that if such payment is made by the Government, the Lessor shall deliver to the Government, free of any and all liens and encumbrances, title to such piece of equipment.

ARTICLE VIII

Neither this contract nor any interest therein shall be assigned or transferred except under the provisions of Article X of this contract and the further exception that the whole or any part of this contract is assignable to the Government.

ARTICLE IX

Subject to the prior written approval of the Contracting Officer, the Lessee shall have the same right and under the same conditions and terms to terminate this contract as has the Government to terminate principal contract.

ARTICLE X

(a) At any time prior to the release of any piece of equipment by the Lessee, the Contracting Officer may require the Lessor to transfer to any location other than the one at which the Lessee is working, any or all pieces of equipment rented under this agreement.

(b) In the event of such a transfer of equipment, the cost of transportation of such equipment to the new location and return transportation F. O. B. CARS at the point of origin shown in this agreement will be paid by the Lessee. If transportation is accomplished by any method other than rail, there shall be paid the actual cost of such transportation, as shown by evidence satisfactory to the Contracting Officer, provided that in no event shall the payment made for return transportation exceed the cost of such return transportation, if accomplished by rail over the shortest route between the new location and the point of origin shown in this agreement.

(c) It is agreed that in the event of the transfer of equipment as set forth above, the Lessor will enter into a rental agreement with any holder of a Government construction contract designated by the Government. Such rental agreement shall establish as the rate of rental for each piece of equipment transferred the same rate of rental established for such piece of equipment in this agreement, and the valuation placed on each piece of equipment transferred shall be the same in the new rental agreement as that placed on such piece of equipment in this agreement. It is further agreed that there shall be inserted in the new rental agreement a provision that all rental paid under this agreement shall be considered to have been paid by the Lessee named in the new agreement.

ARTICLE XI

The Lessor shall set forth in Part II of Schedule "A" attached hereto and made a part hereof the information called for in that schedule. The Lessor agrees to apply to the liquidation of all indebtednesses secured by liens or other encumbrances against equipment rented under this agreement, such portion of the rental paid as is necessary for the prompt discharge of such indebtedness. It is agreed that if, at any time, any person holding a lien or other encumbrance against any piece of equipment rented under this agreement, shall submit to the Lessee evidence that the Lessor is not discharging his indebtedness to such holder of a lien or encumbrance in accordance with the written terms under which such indebtedness was incurred, the Lessee shall have the right to impound all further rental due or to become due until such time as the rights of the Lessor and the lien holder are determined and all just and proper claims of the lien holder are satisfied, provided that nothing in this article shall be construed as requiring the Lessor to pay to the lien holder any sum not required to be paid by the terms under which the indebtedness was incurred, or to pay any sum to the lien holder prior to the time such sum is due by the written terms under which the indebtedness was incurred, provided further that no rentals due the Lessor shall be impounded under the provisions of this article, unless written notice of the Lessee's intention to impound the rental shall have been given to the Lessor, at least seventy-two (72) hours prior to the time rentals shall be impounded.

ARTICLE XII

Disputes.—Whenever the Lessor and the Lessee are unable to agree on any question arising under this contract, the dispute shall be submitted for the arbitration and determination of the Contracting Officer, whose decision shall be final and conclusive as to the parties hereto.

ARTICLE XIII

Definitions.—The term "Contracting Officer" as used herein shall mean the Contracting Officer who executed the principal contract and shall include his duly appointed successor and his authorized representative.

ARTICLE XIV

This contract shall be subject to the written approval of the Contracting Officer and shall not be binding until so approved.

ARTICLE XV

The following changes were made in this agreement before it was signed by the parties hereto:

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

WITNESS:

(Lessor)

By -----

(1) -----

(2) -----

(1) -----

(Lessee)

By -----

(2) -----

(Title)

I, -----, certify that I am the -----
-----, secretary of the corporation named as the Lessor herein;
that -----, who signed this agreement on behalf of the Lessor,
was then -----, of said corporation; that
said agreement was duly signed for and in behalf of said corporation by authority
of its governing body, and is within the scope of its corporate powers.

----- [Corporate Seal]

Place -----

Date -----

I, -----, certify that I am the -----,
secretary of the corporation named as the Lessee herein; that -----,
who signed this agreement on behalf of the Lessee, was then -----
of said corporation; that said agreement was duly signed for and in behalf of said
corporation by authority of its governing body, and is within the scope of its
corporate powers.

----- [Corporate seal]

Place -----

Date -----

Approved:

(Name)

(Title)

(To be executed by the Contracting Officer who executed the principal contract named herein, or his successor or his duly authorized representative.)

SCHEDULE "A"

PART I. RATES OF RENTAL

FULL MONTH

The basic rental rates shown on this schedule are monthly rates and shall constitute the maximum rental payable during any one calendar month, regardless of the number of days in any month, except as provided herein. If any piece of equipment is in actual use in excess of 240 hours during any one calendar month there shall be paid, in addition to the basic rate, one-half of the hourly rate for each hour in excess of 240 during which the equipment is in actual use during any one calendar month. The hourly rate shall be computed by dividing the basic rate by 240.

PORTION OF A MONTH

For any period less than a calendar month during which any piece of equipment shall have been rented there shall be paid as basic rental that proportion of the basic rate which the number of days the equipment was rented bears to thirty. If during any period of less than a calendar month for which any piece of equipment shall have been rented any such piece of equipment shall have been in actual use for a total number of hours in excess of eight times the number of calendar days in such portion of a month there shall be paid for each excess hour one-half the hourly rate.

PART II. LIST OF HOLDERS OF LIENS AND OTHER ENCUMBRANCES

1. Attention is invited to Section 35 of the Criminal Code as amended, which provides:

"Whoever shall make or cause to be made or present or cause to be presented, for payment or approval, to or by any person or officer in the civil, military, or naval service of the United States, or any department thereof, or any corporation in which the United States of America is a stockholder, any claim upon or against the Government of the United States, or any department or officer thereof, or any corporation in which the United States of America is a stockholder, knowing such claim to be false, fictitious, or fraudulent; or whoever, for the purpose of obtaining or aiding to obtain the payment or approval of such claim, or for the purpose of obtaining or aiding to obtain the payment or approval of such claim, or for the purpose and with the intent of cheating and swindling or defrauding the Government of the United States, or any department thereof, or any corporation in which the United States of America is a stockholder, shall knowingly and willfully falsify or conceal or cover up by any trick, scheme, or device a material fact, or make or cause to be made any files or fraudulent statements or representations, or make or use or cause to be made or used any false bill, receipt, voucher, roll, account, claim, certificate, affidavit, or deposition, knowing the same to contain any fraudulent or fictitious statement or entry, shall be fined not more than \$10,000 or imprisoned not more than ten years, or both."

2. The following affidavit shall be executed and sworn to by the owners of equipment rented directly to the Government or the rental of which is paid indirectly by the Government:

STATE OF

County of. ss:

I, -----, (name of party signing affidavit) -----

(title), being duly sworn, do depose and say: That the following is a complete and correct statement of the amount or amounts of any and all indebtedness secured by liens or other encumbrances of any nature, legal or equitable, which

are held by any person, firm, or corporation, against the equipment rented in accordance with the terms of this rental agreement.

<i>Equipment Number</i> (Use number shown on Part I)	<i>Name and Address of</i> <i>Encumbrance Holder</i>	<i>Amount of Indebtedness</i> <i>Secured by Encumbrance</i>

(Title)
Subscribed and sworn to before me this ----- day of -----, 194-----

Schedule A—Part III	Valuation of Machine	Rental
Type of Equipment-----		
Manufacturer-----		
Year of Model-----		
Original Point of Shipment-----		
Type of Equipment-----		
Manufacturer-----		
Year of Model-----		
Original Point of Shipment-----		

EXHIBIT No. 91
EQUIPMENT RENTAL AGREEMENT

THIS CONTRACT, entered into this ---- day of -----, 19--, by -----

*a corporation, organized and existing under the laws of the State of-----

*a partnership consisting of -----
*an individual trading as -----
of the City of -----
in the State of -----
hereinafter called the Lessor, and -----
*a corporation, organized and existing under the laws of the State of -----

*a partnership consisting of -----
*an individual trading as -----
of the City of -----
in the State of -----
hereinafter called the Lessee,
WHEREAS, the Lessee has heretofore, to wit, on the ---- day of -----,
19--, entered into a contract hereinafter called the principal contract, with the
United States of America, hereinafter called the Government, to construct for the
Government -----

at or near -----

*Delete all lines which do not apply.

WHEREAS, the Lessor has agreed to rent to the Lessee for use in connection with the afore-mentioned construction the equipment leased on schedule "A" attached hereto and made a part hereof; and

WHEREAS, the Lessor has read and is familiar with each and every part of said principal contract, and the respective rights, powers, benefits, and liabilities of the Lessee and the Government thereunder;

NOW, THEREFORE, THIS AGREEMENT WITNESSETH: That the parties hereto do mutually agree as follows:

ARTICLE I

The Lessor shall furnish the equipment listed on Schedule "A" attached hereto and made a part hereof. Equipment shall be in a condition to render efficient, economic, and continuous service. Each piece of equipment shall be clearly marked with the identification number set opposite such piece on Schedule "A".

ARTICLE II

All necessary minor or field repairs to equipment shall be made by the Lessee without cost to the Lessor. Other than minor or field repairs shall be made by the Lessor without cost to the Lessee. All gasoline and oil for the operation of such equipment will be furnished by the Lessee.

ARTICLE III

Equipment is rented without operators. Any operator deemed incompetent by the Lessor and the Lessee shall be removed from any piece of equipment. Should the Lessor and the Lessee fail to agree as to the competency of any operator the matter shall be submitted to the Contracting Officer who signed the principal contract and his decision shall be final as to the parties hereto.

ARTICLE IV

The Lessor shall initiate shipment of the equipment to the site of the work immediately. It is estimated that the equipment will be used for approximately ----- working hours, but the Lessee reserves the right to increase or decrease the rental period.

ARTICLE V

(a) The Lessor shall be paid at the rate prescribed in Schedule "A". The rental period shall begin on the delivery of such equipment to a common carrier for shipment to the site of the work, as evidenced by the bill of lading covering such shipment, and shall terminate, unless title to the equipment passes to the Government at an earlier date, on the date of delivery of such equipment to a common carrier, for shipment from the site of the work, as evidenced by the bill of lading covering such shipment, provided such equipment is delivered without delay after notice by the Lessee or the Contracting Officer, of the principal contract, to the Lessor that such equipment is no longer required; otherwise the rental shall terminate on the date of such notice. If such equipment is not in sound and workable condition when it arrives at the work site the rental period therefor shall not begin until such equipment shall have been placed in sound and workable condition at the expense of the Lessor. No transportation charges for the shipment thereof shall be paid by the Lessee for any piece of equipment which arrives at the work site in other than sound and workable condition if such piece of equipment cannot be placed in sound and workable condition. The determination as to whether such equipment is in sound and workable condition shall, in every instance, be made by the Contracting Officer or his duly authorized representative. Slight delays in the use of any piece of equipment caused by necessary minor or field repairs and replacements shall not interrupt the rental period, but no rental shall be paid for the period of any delay in the use of such piece of equipment caused by other than necessary minor or field repairs.

(b) The minimum rental set forth in Schedule "A" shall be allowed for equipment in good repair and retained at the site of the work, provided such retention is approved in writing by the Contracting Officer or his duly authorized representative. Transportation will be paid by the Lessee f. o. b. cars at original point of shipment, and return transportation f. o. b. cars to original point of shipment, or equivalent mileage, but charges for transportation of any piece of equipment over a distance in excess of Five Hundred Miles (500) must have written approval of the Contracting Officer or his duly authorized representative. Only loading and/or unloading costs incurred at the worksite will be paid by the Lessee. Rental payments will be made monthly on or about the 10th of the month for the previous calendar month.

ARTICLE VI

Failure of any piece of equipment to perform to the satisfaction of the Lessee or the Contracting Officer or his duly authorized representative shall be sufficient cause for the termination of this contract by the Lessee, or the requirement by the Lessee that the equipment be replaced with equipment of satisfactory performance.

ARTICLE VII

When the equipment rented hereunder shall arrive at the site of the work the Lessor shall file with the Lessee a schedule setting forth, (1) the fair valuation of each piece of equipment at the time of its arrival and (2) the names and addresses of any and all persons holding any lien or encumbrance of any nature whatsoever against such piece of equipment together with the amount of the indebtedness secured by such lien or encumbrance. Such valuation shall be deemed final unless within ten days (10) after the equipment has been set up and operating, the Lessee or the Contracting Officer or his duly authorized representative shall modify such valuation. When and if the total rental paid to the Lessor for any piece of equipment shall equal the value thereof, plus one percent per month for each month or fraction thereof such piece of equipment shall have been in use, no further rental shall be paid to the Lessor and title shall vest in the Government. At the completion of the work or upon termination of the principal contract as provided in Article VI of the principal contract, the Government may at its option purchase any piece of such equipment by paying the Lessor the difference between the valuation of such equipment plus 1% per month for each month or part thereof such piece of equipment shall have been in use and the total rental therefor paid for such piece of equipment.

ARTICLE VIII

Neither this contract nor any interest therein shall be assigned or transferred, except that the whole or any part is assignable to the Government.

ARTICLE IX

The Contractor shall have the same right and under the same conditions and terms to terminate this contract as has the Government in the principal contract.

ARTICLE X

This contract shall be subject to the written approval of the Contracting Officer who executed the principal contract, or his duly authorized representative, and shall not be binding until so approved.

ARTICLE XI

The following changes were made in this agreement before it was signed by the parties hereto:

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the day and year first above written.

Witness:

(1) -----
 (2) -----

 (Lessor)
 By -----

 (Lessee)
 By -----

 (Title)

I, _____, certify that I am the _____, secretary of the corporation named as the Lessor herein; that _____, who signed this agreement on behalf of the Lessor, was then _____ of said corporation; that said agreement was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

Place _____
Date _____

[Corporate Seal]

I _____, certify that I am the _____ secretary of the corporation named as the Lessee herein; that _____, who signed this agreement on behalf of the Lessee, was then _____ of said corporation; that said agreement was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

Place _____
Date _____

[Corporate Seal]

Approved:

(Name)

(Title)

(To be executed by the Contracting Officer who executed the principal contract named herein, or his successor or his duly authorized representative.)

Schedule A	Valuation machine	Rental
Type of equipment _____	_____	_____
Manufacturer _____	_____	_____
Year of model _____	_____	_____
Type of equipment _____	_____	_____
Manufacturer _____	_____	_____
Year of model _____	_____	_____

Item I. The lessee shall initiate shipment of equipment to the site of the work immediately. It is estimated that the equipment will be used for approximately — working hours, but the lessee reserves the right to increase or decrease the rental period.

Item II. A minimum rental period of — hours per week or days per month shall be allowed for equipment in good repair and retained at the site of the work, provided such retention is approved in writing by the constructing officer or his duly authorized representative.

EXHIBIT No. 92

Q. M. G. O.

C. P. F. F. Form No. 1
Approved by the Assistant Secretary of War
July 12, 1940

Contract No. W 6357 qm-216
O. I. No. 280-41

COST-PLUS-A-FIXED-FEE CONSTRUCTION CONTRACT

WAR DEPARTMENT

F. Y. _____
File No. 600.1.
Place: Ft. Bragg.
Indexed _____
Examined by E. D. W.
Approved } E. D. W.
Accepted }
To G. A. O. through J. A. G. O. _____

Contractor, T. A. Loving & Company, Goldsboro, North Carolina.
Fixed-fee, \$141,850.00.

Contract for Construction of Complete Cantonment Camp, including necessary buildings, temporary structures, utilities, and appurtenances thereto.

Place, Fort Bragg, Fayetteville, North Carolina.

Estimated cost of project, \$3,731,845.00.

Payments to be made by Finance Officer at Fort Bragg, North Carolina.

The supplies and services to be obtained by this instrument are authorized by, are for the purpose set forth in, and are chargeable to the following procurement authorities, the available balances of which are sufficient to cover the cost of the same:

QM 9043 P 99 A 0540.063-N.

M. B. BIRDSEYE, *Major, Q. M. C.*

This contract is authorized by the following laws:

Public, No. 611, 76th Congress, approved June 13, 1940.

Public, No. 703, 76th Congress, approved July 2, 1940.

COST-PLUS-A-FIXED-FEE CONSTRUCTION CONTRACT

THIS CONTRACT, entered into this 9th day of September 1940 by THE UNITED STATES OF AMERICA, hereinafter called the Government, represented by the Contracting Officer executing this contract, and T. A. Loving & Company, a corporation organized and existing under the laws of the State of North Carolina, of the City of Goldsboro in the State of North Carolina, hereinafter called the Contractor, witnesseth that:

WHEREAS the Government desires to have constructed a complete Cantonment Camp, including the necessary buildings, temporary structures, utilities, and appurtenances thereto at Fort Bragg, Fayetteville, North Carolina.

WHEREAS the accomplishment of the above-described work under a cost-plus-a-fixed-fee contract, entered into after negotiations approved by the Secretary of War, and without advertising for proposals, is authorized by law; and

WHEREAS as a result of such negotiations, the Secretary of War has directed that the Government enter into a cost-plus-a-fixed-fee contract with the Contractor for the accomplishment of the above-described work;

Now, THEREFORE, the parties hereto do mutually agree as follows:

ARTICLE I. STATEMENT OF WORK

1. The Contractor shall, in the shortest possible time, furnish the labor, materials, tools, machinery, equipment, facilities, supplies not furnished by the Government, and services, and do all things necessary for the completion of the following work: Construct a complete Cantonment Camp, including necessary buildings, temporary structures, utilities, and appurtenances thereto, and comprising 218 Barracks; 106 Mess Halls; 107 Day Rooms; 107 Storehouses; 16 Officers' Quarters; 7 Mess Halls; 13 Administration Buildings; 8 Guardhouses; 3 Fire Stations; Post Office; Telephone and Telegraph Building; 9 Post Exchanges; 8 Recreation Buildings; Theater with 1,000 seats; 8 Infirmarys; Utility Shop; 9 Motor Repair Shops; 4 Blacksmith Shops; 10 Enclosed Stables; Hay Shed, enclosed; 14 Warehouses; Gasoline Storage Building; Incinerator; Cold Storage Building; Bakery with equipment; Laundry with equipment; Electric, Telephone, and Water Lines; Railroad Trackage; Sewers; Roads; Walks; Grading and Clearing, in accordance with the drawings and specifications or instructions contained in appendix "A" hereto attached and made a part hereof, or to be furnished hereafter by the Contracting Officer and subject in every detail to his supervision, direction, and instructions.

It is estimated that the total cost of the construction work covered by this contract will be approximately three million seven hundred thirty-one thousand eight hundred forty-five dollars (\$3,731,845.00), exclusive of the Contractor's fee, and that the work herein contracted for will be ready for utilization by the Government within one and one-half (1½) months from the date of this contract. It is expressly understood, however, that the Contractor does not guarantee the correctness of either of these estimates. The estimated total cost set forth above is based upon a detailed estimate agreed to by both the Government and the Contractor, a copy of which is on file in the office of 'The Quartermaster General of the Army.

¹ Insert name of chief of branch concerned.

In consideration for his undertaking under this contract the Contractor shall receive the following:

- (a) Reimbursement for expenditures as provided in article II.
- (b) Rental for Contractor's equipment as provided in article II.
- (c) A fixed fee in the amount of one hundred forty-one thousand eight hundred fifty dollars (\$141,850.00) which shall constitute complete compensation for the Contractor's services, including profit and all general overhead expenses.

2. The Contracting Officer may, at any time, by a written order and without notice to the sureties, make changes in or additions to the drawings and specifications, issue additional instructions, require additional work, or direct the omission of work covered by the contract. If such changes cause a material increase or decrease in the amount or character of the work to be done under this contract, or in the time required for its performance, and equitable adjustment of the amount of the fixed fee to be paid to the Contractor shall be made and the contract shall be modified in writing accordingly. Any claim for adjustment under this article must be asserted within 10 days from the date the change is ordered: *Provided, however,* That the Contracting Officer, if he determines that the facts justify such action, may receive and consider, and, with the approval of the Chief of Branch, adjust any such claim asserted at any time prior to the date of final settlement of the contract. If the parties fail to agree upon the adjustment to be made, the dispute shall be determined as provided in article XV hereof. But nothing provided in this article shall excuse the Contractor from proceeding with the prosecution of the work so changed.

3. The title to all work, completed or in the course of construction, shall be in the Government. Likewise, upon delivery at the site of the work or at an approved storage site and upon inspection and acceptance in writing by the Contracting Officer, title to all materials, tools, machinery, equipment, and supplies, for which the Contractor shall be entitled to be reimbursed under article II, shall vest in the Government. These provisions as to title being vested in the Government shall not operate to relieve the Contractor from any duties imposed under the terms of this contract.

4. The work shall be executed in the best and most workmanlike manner by qualified, careful, and efficient workers, in strict conformity with the best standard practices.

5. Except it be otherwise authorized by the Contracting Officer, all materials shall be of the best quality of their respective kinds. If the Contracting Officer requires that the Contractor submit for prior approval samples of materials proposed for use in the work covered by this contract, the Contractor shall make no commitments for such materials until the submitted sample has been approved by the Contracting Officer.

ARTICLE II. COST OF THE WORK

Reimbursement for contractor's expenditures.

1. The Contractor shall be reimbursed in the manner hereinafter described for such of his actual expenditures in the performance of the work as may be approved or ratified by the Contracting Officer and as are included in the following items:

(a) All labor, material, tools, machinery, equipment, supplies, services, power, and fuel necessary for either temporary or permanent use for the benefit of the work. All articles of machinery or equipment valued at \$300 or less shall be classed as tools and shall be charged directly to the work. Title thereto shall thereupon pass to the Government.

(b) All subcontracts made in accordance with the provisions of this agreement.

(c) Rental actually paid by the Contractor, at rates not to exceed those approved by the Contracting Officer, for construction plant in sound and workable condition, such as pumps, derricks, concrete mixers, boilers, clamshell or other buckets, electric motors, electric drills, electric hammers, electric hoists, mechanical shovels, locomotive cranes, power saws, engineers' levels and transits, and such other equipment exceeding \$300 in value as may be necessary for the proper and economical prosecution of the work. Each contract for the rental of construction plant or parts thereof by the Contractor from third parties shall be in a form prescribed by the Secretary of War, shall be subject to approval by the Contracting Officer, and shall contain

the same provisions entitling the Government to acquire title to such plant or any part thereof upon the same conditions as those contained in paragraph 2 of article II of this contract.

(d) Loading and unloading at the site of the work of construction plant, owned or rented by the Contractor; the transportation thereof to the place or places where it is to be used in connection with said work and return transportation f. o. b. cars, to the point of original shipment or equivalent mileage, except as hereinafter set forth; the installation and dismantling thereof, and such repairs and spare parts as are not included in the rental; provided such repairs or spare parts are not made necessary by defects in such plant, or parts thereof, or by the fault or negligence of the Contractor or his employees; but charges for transportation of such construction plant over distances in excess of 500 miles must have the written authorization of the Contracting Officer in advance.

(e) Transportation charges on materials and supplies.

(f) Transportation and traveling expenses to and from the work of the necessary field forces for the economical and successful prosecution of the work; expenses of procuring labor and expediting the production and transportation of material and equipment. Expenditures under these items must have the written authorization of the Contracting Officer in advance.

(g) Salaries of resident engineers, superintendents, timekeepers, foremen, and other field employees of the Contractor in connection with the work. In case the full time of any field employee of the Contractor is not applied to the work his salary shall be included in this item only in proportion to the actual time applied thereto. No person shall be assigned to service by the Contractor as superintendent of construction, chief engineer, chief purchasing agent, chief accountant, or similar position in the Contractor's field organization, or as principal assistant to any such person, until there has been submitted to and approved by the Contracting Officer a statement of the qualifications and experience of the person proposed for such assignment. The regular salary or compensation rate of any such person shall not be in excess of the highest salary or compensation rate received by him during the year preceding the date of this contract plus such increase as the Contracting Officer may approve.

(h) Temporary rights in land required in connection with the work.

(i) Buildings and equipment required for necessary field offices, commissary, hospital and other facilities, and the cost of maintaining and operating said offices, hospital and other facilities, including minor expenses such as telegrams, telephone service, expressage, and postage. The cost of maintaining commissary buildings and utility service therein will be reimbursed, but the cost of all commissary operating personnel and supplies will be borne by the Contractor. All commissaries shall be operated as nearly as possible without profit or loss and shall be subject to such sanitary regulations as the Contracting Officer may prescribe.

(j) Premiums on such bonds and insurance policies as the Contracting Officer may require for the protection of the Government; the cost of all public liability, employer's liability, workmen's compensation, fidelity, fire, theft, burglary, and other insurance that the Contracting Officer may approve as reasonably necessary for the protection of the Contractor.

(k) Losses and expenses, not compensated by insurance or otherwise (including settlements made with the written consent of the Contracting Officer), actually sustained by the Contractor in connection with the work and found and certified by the Contracting Officer to be just and reasonable.

(l) The cost of reconstructing and replacing any of the work destroyed or damaged, and not covered by insurance, but expenditures under this item must have the written authorization of the Contracting Officer in advance.

(m) Payments from his own funds made by the Contractor under the Social Security Act, and any applicable State or local taxes, fees, or charges which the Contractor may be required on account of this contract to pay on or for any plant, equipment, process, organization, materials, supplies, or personnel; and, if approved in writing by the Contracting Officer in advance, permit and license fees, and royalties on patents used including those owned by the Contractor.

(n) Such portion of the transportation, traveling, and hotel expenses of officers, engineers, and other employees of the Contractor as is actually incurred in connection with this work. Expenditures under this item must have the written authorization of the Contracting Officer in advance.

(o) When specifically approved in advance by the Chief of Branch, a reasonable allowance for work done in the Contractor's general offices exclusively for and directly chargeable to the work.

(p) Such other items as should, in the opinion of the Contracting Officer, be included in the cost of the work. When such an item is allowed by the Contracting Officer, it shall be specifically certified as being allowed under this paragraph.

(q) It is agreed that, unless otherwise authorized by the Contracting Officer, all allowances as items of cost on account of the work under this contract for travel expenses and subsistence provided for herein shall conform to the allowances authorized by the "Standardized Government Travel Regulations."

Rental for Contractor's equipment.

2. Rental shall be paid to the Contractor for such construction plant or parts thereof as he may own and furnish, at not to exceed the rates approved by the Contracting Officer. Except as specified below, such rental shall begin on the date of the delivery of such plant, or parts thereof, to a common carrier for shipment to the site of the work, as evidenced by the bill of lading covering such shipment, and shall terminate, unless title thereto passes to the Government at an earlier date, on the date of the delivery of such plant, or parts thereof, to a common carrier for shipment from the site of the work, as evidenced by the bill of lading covering such shipment, provided such plant, or parts thereof, are so delivered without delay after notice by the Contracting Officer to the Contractor that such plant, or parts thereof, are no longer required; otherwise, the rental shall terminate on the date of such notice. If such plant, or any part thereof, is not in sound and workable condition when it arrives at the site of the work, the rental period thereof shall not begin until such plant, or parts thereof, shall have been placed in sound and workable condition at the expense of the Contractor, and no rental thereof shall be paid for any prior period. If such plant, or parts thereof, cannot be placed in sound and workable condition, no transportation charges for the shipment thereof shall be included in the cost of the work or paid, either directly or indirectly, by the Government. Determination as to whether such plant, or parts thereof, are in sound and workable condition shall, in every instance, be made by the Contracting Officer. Slight delays in the use of such plant, or parts thereof, caused by necessary minor or field repairs and replacements shall not interrupt the rental period, but no rental shall be paid for the period of any delay in the use of such plant, or parts thereof, caused by other than necessary minor or field repairs. When such construction plant or any part thereof shall arrive at the site of the work, the Contractor shall file with the Contracting Officer a schedule setting forth the fair valuation at that time of each part of such construction plant. Such valuation shall be deemed final unless the Contracting Officer shall, within 10 days after the machinery has been set up and working, modify or change such valuation. When and if the total rental paid to the Contractor for any such part shall equal the valuation thereof, plus one percent (1%) per month for each month or fraction thereof such part has been in use, no further rental thereof shall be paid to the Contractor, and title thereto shall vest in the Government. At the completion of the work or upon termination of the contract as provided in article VI, the Government may at its option purchase any part of such construction plant by paying to the Contractor the difference between the valuation of such part or parts, plus one percent (1%) per month for each month or fraction thereof such part or parts have been in use and the total rentals theretofore paid for such part or parts.

General.

3. The Government reserves the right to furnish any materials, construction equipment, machinery, or tools necessary for the completion of the work.

4. The Government reserves the right to pay directly to common carriers any or all freight charges on construction plant, materials, and supplies.

5. The Government reserves the right to pay directly to the persons concerned all sums due from the Contractor for labor, materials, or other charges.

6. Rates of rental as substitutes for scheduled rental rates may be agreed upon in writing between the Contractor and the Contracting Officer, such rates to be in conformity with similar rates of rental charged in the particular territory in which the work covered by this contract is to be performed. Such substitute rates shall be subject to the approval of the Chief of Branch, but shall be followed until so approved, at which time any necessary adjustments in prior payments will be made.

7. No salaries of the Contractor's executive officers, no part of the expense incurred in conducting the Contractor's main office or regularly established branch offices, and no overhead expenses of any kind, except as specifically authorized in section 1 of this article, shall be included in the cost of the work; nor shall any interest on capital employed or on borrowed money be included in the cost of the work.

8. The Contractor shall, to the extent of his ability, take all cash and trade discounts, rebates, allowances, credits, salvage, commissions, and bonifications, and when unable to take advantage of such benefits he shall promptly notify the Contracting Officer to that effect and the reason therefor. In determining the actual net cost of articles and materials of every kind required for the purpose of this contract, there shall be deducted from the gross cost thereof all cash and trade discounts, rebates, allowances, credits, salvage, commissions, and bonifications which have accrued to the benefit of the Contractor or would have so accrued except for the fault or neglect of the Contractor. Such benefits lost through no fault or neglect on the part of the Contractor, or lost through fault of the Government, shall not be deducted from gross costs.

9. All revenue from the operations of the hospital or other facilities, except commissaries, or from rebates, discounts, refunds, etc., shall be accounted for by the Contractor and applied in reduction of the cost of the work.

ARTICLE III—PAYMENTS

Reimbursement for cost.

1. The Government will currently reimburse the Contractor for expenditures made in accordance with article II upon certification to and verification by the Contracting Officer of the original signed pay rolls for labor, the original paid invoices for materials, or other original papers. Generally, reimbursement will be made weekly but may be made at more frequent intervals if the conditions so warrant.

Rental for contractor's equipment.

2. Rental as provided in article II for such construction plant or parts thereof as the Contractor may own and furnish shall be paid monthly upon presentation of proper vouchers.

Payment of the fixed-fee.

3. The fixed-fee prescribed in article I shall be compensation in full for the services of the Contractor, including profit and all general overhead expenses. Ninety percent (90%) of said fixed-fee shall be paid as it accrues, in monthly installments based upon the percentage of the completion of the work as determined from estimates made and approved by the Contracting Officer. Upon completion of the work and its final acceptance, any unpaid balance of the fee shall be paid to the Contractor. If the contract is terminated for the convenience of the Government, before completion, the Contractor will be paid that proportion of the prescribed fee which the work actually completed bears to the entire project, less fee payments previously made. If the contract is terminated due to the fault of the Contractor, no additional payments on account of the fee will be made.

Payments by contractor.

4. If bills for purchase of material, machinery, or equipment, or pay rolls covering employment of laborers or mechanics incurred by the Contractor or by any subcontractor hereunder are not promptly paid by the Contractor or subcontractor as the case may be, the Contracting Officer may, in his discretion, withhold from payments otherwise due the Contractor an amount equivalent to the amount of any such bill or pay roll. Should the Contractor neglect or refuse to pay such bills or pay rolls or to direct any subcontractor to pay such bills or pay rolls within five (5) days after notice from the Contracting Officer so to do, the Government shall have the right to pay such bills or pay rolls directly, in such event a deduction equal to five percent (5%) of the amount so paid directly shall be made from the Contractor's fee.

Final payment.

5. Upon completion of the work and its final acceptance in writing by the Contracting Officer, the Government shall pay to the Contractor the unpaid balance of the cost of the work determined under article II hereof, and of the fee, less any

sum that may be necessary to settle any unsettled claims for labor or material, or any claim the Government may have against the Contractor. The Contracting Officer shall accept the completed work with reasonable promptness. The Contractor shall, if required, furnish the Government with a release of all claims against the Government arising under and by virtue of this contract other than such claims, if any, as be specifically excepted by the Contractor from the operation of the release in stated amounts to be set forth therein.

ARTICLE IV.

Records and accounts—Inspection and audit.

1. The Contractor agrees to keep records and books of account, on a recognized cost-accounting basis, showing the actual cost to him of all items of labor, materials, equipment, supplies, services, and other expenditures of whatever nature for which reimbursement is authorized under the provisions of this contract. The system of accounting to be employed by the Contractor shall be such as is satisfactory to the Contracting Officer.

2. The Contracting Officer shall at all times be afforded proper facilities for inspection of the work and shall at all times have access to the premises, work and materials, to all books, records, correspondence, instructions, plans, drawings, receipts, vouchers, and memoranda of every description of the Contractor pertaining to said work; and the Contractor shall preserve for a period of 3 years after completion or termination of this contract, all the books, records, and other papers herein mentioned.

3. Any duly authorized representative of the Contractor shall be accorded the privilege of examining the books, records, and papers of the contracting officer relating to the cost of the work for the purpose of checking up and verifying such cost.

ARTICLE V

Special requirements.

1. The Contractor hereby agrees that he will:

(a) Procure and thereafter maintain such bonds and insurance in such forms and in such amounts and for such periods of time as the Contracting Officer may approve or require.

(b) Procure all necessary permits and licenses; obey and abide by all applicable laws, regulations, ordinances, and other rules of the United States of America, of the State, Territory, or subdivision thereof wherein the work is done, or of any other duly constituted public authority.

(c) Unless this provision is waived in writing by the contracting officer, reduce to writing every contract in excess of two thousand dollars (\$2,000) made by him for the purpose of the work hereunder for services, materials, supplies, machinery, or equipment, or for the use thereof; insert therein a provision that such contract is assignable to the Government; make all such contracts in his own name, and not bind or purport to bind the Government or the Contracting Officer thereunder. No purchases in excess of \$500 shall be made or placed without the prior approval of the Contracting Officer.

(d) Enter into no subcontract for any portion of the work, except in the form prescribed by the Secretary of War, nor without the written approval of the Contracting Officer. Subcontracts are defined as contracts entered into by the Contractor with others which involve the performance, wholly or in part at the site of the work, of some part of the work described in Article I hereof.

(e) At all times during the progress of the work keep at the site thereof a duly appointed and qualified representative who shall receive and execute on the part of the Contractor such notices, directions, and instructions as the Contracting Officer may give.

(f) The Contracting Officer may require the Contractor to dismiss from the work such employee as the Contracting Officer deems incompetent, careless, insubordinate, or otherwise objectionable.

(g) At all times use his best efforts in all acts hereunder to protect and subserve the interest of the Government.

ARTICLE VI. TERMINATION OF CONTRACT BY GOVERNMENT

1. Should the Contractor at anytime refuse, neglect, or fail to prosecute the work with promptness and diligence, or default in the performance of any of the agreements herein contained, or should conditions arise which make it advisable or necessary in the interest of the Government to cease work under this contract, the Government may terminate this contract by a notice in writing from the Contracting Officer to the Contractor. Such termination shall be effective in the manner and upon the date specified in said notice and shall be without prejudice to any claims which the Government may have against the Contractor. Upon receipt of such notice the Contractor shall, unless the notice directs otherwise, immediately discontinue all work and the placing of all orders for materials, facilities, and supplies in connection with performance of this contract and shall proceed to cancel promptly all existing orders and terminate work under all sub-contractors insofar as such orders and/or work are chargeable to this contract.

2. If this contract is terminated for the fault of the Contractor, the Contracting Officer may enter upon the premises and take possession, for the purpose of completing the work contemplated by this contract, of all materials, tools, equipment, and appliances and all options, privileges, and rights, and may complete or employ any other person or persons to complete said work.

3. Upon the termination of this contract as hereinbefore provided, full and complete settlement of all claims of the Contractor arising out of this contract shall be made as follows:

(a) The Government shall assume and become liable for all obligations, commitments, and claims that the Contractor may have theretofore in good faith undertaken or incurred in connection with said work and in accordance with the provisions of this contract; and the Contractor shall, as a condition of receiving the payments mentioned in this article, execute and deliver all such papers and take all such steps as the Contracting Officer may require for the purpose of fully vesting in the Government the rights and benefits of the Contractor under such obligations or commitments.

(b) The Government shall reimburse the Contractor for all expenditures made in accordance with Article II and not previously reimbursed.

(c) If this contract is terminated for the convenience of the Government, the Government shall reimburse the Contractor for such further expenditures after the date of termination for the protection of Government property and for accounting services in connection with the settlement of this contract as the Contracting Officer may approve.

(d) The Government shall pay to the Contractor any unpaid balance for the rental of the Contractor's equipment in accordance with Article II to the date of termination, and if any of the Contractor's equipment is retained by the Government under the provisions of this article, additional compensation therefor shall be paid in accordance with Article II, either by purchase or rental at the election of the Contracting Officer.

(e) The obligation of the Government to make any of the payments required by this article, or by paragraph 3, Article III of this contract, shall be subject to any unsettled claims for labor or material or any claim the Government may have against the Contractor.

ARTICLE VII. PREFERENCE FOR DOMESTIC ARTICLES

1. In the performance of the work covered by this contract the Contractor, subcontractors, materialmen or suppliers, shall use only such unmanufactured articles, materials, and supplies as have been mined or produced in the United States, and only such manufactured articles, materials, and supplies as have been manufactured in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States. The foregoing provision shall not apply to such articles, materials, or supplies of the class or kind to be used or such articles, materials, or supplies from which they are manufactured, as are not mined, produced, or manufactured, as the case may be, in the United States in sufficient and reasonably available commercial quantities and of a satisfactory quality, or to such articles, materials, or supplies as may be excepted by the head of the department under the proviso of title III, section 3, of the act of March 3, 1933, 47 Stat. 1520 (U. S. Code, title 41, section 10b).

2. Inasmuch as the materials listed below or the materials from which they are made are not mined, produced, or manufactured, as the case may be, in the

United States in sufficient and reasonably available commercial quantities and of satisfactory qualities, their use in the work herein specified is hereby authorized without regard to the country of origin:

Asbestos.	Kaurigum.	Rubber.
Balsa wood.	Lac.	Silk.
China wood oil (Tung oil).	Nickel.	Sisal.
Chromium.	Nickel alloy (Monel met-	Teak wood.
Cork.	al).	Tin.
Jute.	Platinum.	

Articles, materials, or supplies made in the United States and containing mercury, antimony, tungsten, or mica of foreign origin may be used (subject to the requirements of applicable specifications) in the work herein specified, if such manufactured articles, materials, or supplies have been made in the United States substantially all from articles, materials, or supplies mined, produced, or manufactured, as the case may be, in the United States.

ARTICLE VIII. CONVICT LABOR

The Contractor shall not employ any person undergoing sentence of imprisonment at hard labor.

ARTICLE IX. RATES OF WAGES—NONREBATE

1. In accordance with the act of August 30, 1935 (49 Stat. 1011; 40 U. S. C 276a and 276a-1), the following provisions shall apply:

(a) The Contractor or his subcontractor shall pay all mechanics and laborers employed directly upon the site of the work, unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account, the full amounts accrued at the time of payment, computed at wage rates not less than those established by the Secretary of Labor for the work herein specified, regardless of any contractual relationship which may be alleged to exist between the Contractor or subcontractor and such laborers and mechanics; and the scale of wages to be paid shall be posted by the Contractor in a prominent and easily accessible place at the site of the work. The Contracting Officer shall have the right to withhold from the Contractor so much of accrued payments as may be considered necessary by the Contractor or any subcontractor on the work the difference between the rates of wages required by the contract to be paid laborers and mechanics on the work and the rates of wages received by such laborers and mechanics and not refunded to the Contractor, subcontractors, or their agents.

(b) In the event it is found by the Contracting Officer that any laborer or mechanic employed by the Contractor or any subcontractor directly on the site of the work covered by the contract has been or is being paid a rate of wages less than the rate of wages required by the contract to be paid as aforesaid, the Government may, by written notice to the Contractor, terminate his right to proceed with the work or such part of the work as to which there has been a failure to pay said required wages and prosecute the work to completion by contract or otherwise and the Contractor shall be liable to the Government for any excess costs occasioned the Government thereby.

2. Should the Contractor or any subcontractor pay to any laborer or mechanic a wage based upon a rate in excess of the wage rate for the classification in which said laborer or mechanic is included as established for the work by the Secretary of Labor, such increased wage shall be at the expense of the Contractor and shall not be reimbursed by the United States. When, in connection with the audit and check by the Contracting Officer or his authorized representative, of the Contractor's pay rolls, prior to reimbursement as contemplated in paragraph 1 of article II hereof, it is found that one or more laborers and/or mechanics have been paid wages at rates in excess of the wage rates, established for such laborers and/or mechanics, the reimbursement made to the Contractor on account of such pay rolls will not include such excess payments. The provisions of this section shall not apply when wage rates for a particular classification greater than those prescribed by the (11) Secretary of Labor have been approved in writing by the Contracting Officer who executed this contract or his successor.

3. The Contractor shall furnish to the Government representative in charge at the site of the work covered by this contract or if no Government representative is in charge at the site, shall mail to the Federal agency having control of the project, within 7 days after the payment of each and every weekly pay roll, an affidavit in the form prescribed by regulations issued jointly by the Secretary of the Treasury and the Secretary of the Interior under date of January 8, 1935, or any modification thereof pursuant to the act of June 13, 1934 (48 Stat. 948; 40 U. S. C. 276b and 276c), sworn to by the officer or employee of the Contractor supervising such payment to the effect that each and every person employed on the work has been paid in full the weekly wages shown on the pay roll covered by the affidavit; that no rebates, or deductions from any wages due such employee or employees not required by law have been made either directly or indirectly, and that to the best of the knowledge and belief of the affiant no agreement or understanding exists with any person employed on the project pursuant to which any person, directly or indirectly, by force, intimidation, threat, or otherwise, induces or receives any deductions or rebates in any manner whatever from any sum paid or to be paid any person for labor performed in carrying out this contract. At the time upon which the first affidavit with respect to wages paid employees is filed the Contractor shall also furnish an affidavit executed by its president or a vice president, setting forth the name of the officer or employee who supervises the payment of employees and stating that such officer or employee is in a position to have full knowledge of the facts set forth in the affidavit respecting the payment of wages of employees. A similar affidavit shall be filed immediately in the event that a change is made in the officer or employee who supervises the payment of employees. The Contractor shall cause appropriate provisions to be inserted in all subcontracts relating to this work to insure fulfillment of the requirements of this article.

ARTICLE X. WORKMEN'S COMPENSATION LAWS

The act of June 25, 1936 (49 Stat. 1938, 1939; 40 U. S. C. 290), provides that the several States have authority to make their workmen's compensation laws applicable to contracts for the construction, alteration, or repair of a public building or public work of the United States, and the several States are vested with the power and authority to enforce such State laws on lands of the United States.

ARTICLE XI. ACCIDENT PREVENTION

The Contractor shall at all times exercise reasonable precautions for the safety of employees on the work and shall comply with all applicable provisions of Federal, local, State, and municipal safety laws and building and construction codes.

ARTICLE XII. OFFICIALS NOT TO BENEFIT

No Member of or Delegate to Congress, or Resident Commissioner, shall be admitted to any share or part of this contract or to any benefit that may arise therefrom, but this provision shall not be construed to extend to this contract if made with a corporation for its general benefit.

ARTICLE XIII. APPROVAL REQUIRED

This contract shall be subject to the written approval of the Secretary of War and shall not be binding until so approved.

ARTICLE XIV. COVENANT AGAINST CONTINGENT FEES

The Contractor warrants that he has not employed any person to solicit or secure this contract upon any agreement for a commission, percentage, brokerage or contingent fee. Breach of this warranty shall give the Government the right to terminate the contract, or in its discretion, to deduct from payments due the Contractor the amount of such commission, percentage, brokerage, or contingent fee. This warranty shall not apply to commissions payable by Contractors upon contracts or sales secured or made through bona fide established commercial or selling agencies maintained by the Contractor for the purpose of securing business.

ARTICLE XV. DISPUTES

Except, as otherwise specifically provided herein, all disputes concerning questions of fact arising under this contract shall be decided by the Contracting

Officer subject to written appeal by the Contractor within 30 days to the Chief of Branch concerned or his duly authorized representative whose decision shall be final and conclusive upon the parties hereto when the amount involved is \$15,000 or less. When the amount involved is more than \$15,000 the decision of the Chief of Branch shall be subject to written appeal within 30 days by the Contractor to the Secretary of War or his duly authorized representative, whose decision shall be final and conclusive upon the parties hereto. In the meantime the Contractor shall diligently proceed with the work as directed.

ARTICLE XVI. CONTRACTOR'S ORGANIZATION AND METHODS

Upon the execution of this contract the Contractor shall submit to the Contracting Officer a chart showing the executive and administrative personnel to be regularly assigned for full or part-time service in connection with the work under contract together with a written statement of the duties of each person and the administrative procedure to be followed by the Contractor for the control and direction of the work; and the data so furnished shall be supplemented as additional pertinent data become available. There shall also be submitted to the Contracting Officer by the Contractor charts of the various field organizations showing all personnel other than artisans, mechanics, helpers, and laborers to be assigned for full or part-time service outside of the central-office organization, together with a written statement of the duties and rates of pay of each person and the procedure proposed to be followed by the Contractor for the accomplishment of all field work including temporary requirements; and the data so furnished shall be supplemented as additional pertinent data become available. Statements of procedure shall include purchasing, disbursing, accounting, transportation, storage, employment, housing, sanitation, subsistence, recreation, and similar essential activities and methods.

ARTICLE XVII. DEFINITIONS

1. The term "Chief of Branch" refers to the head of a branch or bureau of the War Department viz., the Quartermaster General, the Chief of Engineers, etc.,
2. The term "his duly authorized representative" shall mean any person authorized by the Secretary of War or a chief of branch, as the case may be, to act for him other than the Contracting Officer.
3. Except for the original signing of this contract, the term "Contracting Officer" as used herein shall include his duly appointed successor or his authorized representative.

ARTICLE XVIII. ALTERATIONS

The following changes were made in this contract before it was signed by the parties hereto:

Changes are set forth in Appendix "B" attached hereto and made a part hereof. IN WITNESS WHEREOF, the parties hereto have executed this contract as of the day and year first above written.

Approved September 10, 1940.

E. B. GREGORY,
Major General,
The Quartermaster General.
E. B. Gregory

THE UNITED STATES OF AMERICA,
By C. D. HARTMAN,
Brig. Gen., Q. M. C. (Contracting Officer).
C. D. Hartman
T. A. LOVING & COMPANY, INC.
By T. A. LOVING,
Pres., Goldsboro, North Carolina.

Two witnesses:

EDWARD D. WELLS,
3021 Q St. N. W., Washington, D. C.

O. P. EASTENWOOD, Jr.,
4200 Fourth St., North Arlington, Va.

Approved September 11, 1940, by direction of the Secretary of War.

ROBERT P. PATTERSON,
The Assistant Secretary of War.

I, R. H. Bryan, certify that I am the secretary of the corporation named as Contractor herein; that T. H. Loving, who signed this contract on behalf of the Contractor, was then President of said corporation; that said contract was duly signed for and in behalf of said corporation by authority of its governing body, and is within the scope of its corporate powers.

R. A. BRYAN.

[Corporate seal].

I hereby certify that, to the best of my knowledge and belief, based upon observation and inquiry, _____, who signed this contract for the _____ had authority to execute the same, and is the individual who signs similar contracts on behalf of this corporation with the public generally.

(Contracting Officer)

DIRECTIONS FOR PREPARATION OF CONTRACT

1. This form shall be used when authorized by the Secretary of War for formal contracts for the construction, alteration, or repair of buildings or works accomplished under the provisions of the law specifically authorizing the use of a cost-plus-a-fixed-fee contract.

2. There shall be no deviation from this approved contract form, except as provided for in these directions, without approval of the Secretary of War or his duly authorized representative. Where interlineations, deletions, additions, or alterations are authorized, specific notations of the same shall be entered in the blank space following the article entitled "Alterations" before signing. This article is not to be construed as general authority to deviate from the form. Deletion of the descriptive matter not applicable in the preamble need not be noted in the article entitled "Alterations."

3. All blank spaces on the title page must be filled in including a citation of the act or acts authorizing the contract. The Contracting Officer or his duly authorized representative will sign the certificate of availability of funds appearing on the title page.

4. The blank space in the preamble is intended for the insertion of a statement of the work to be done, together with place of performance, or for the enumeration of papers which contain the necessary data.

5. The blank spaces in articles I and XIII must be filled in with the data indicated therein. The contract must be dated, and the performance and payment bonds, if required, must bear the same date.

6. Each appendix will contain a sufficiently descriptive statement to identify it with the contract, viz:

APPENDIX "A"

to Contract No. _____, dated _____ between THE UNITED STATES OF AMERICA and _____
for the construction of _____

7. Contracts subject to approval are not valid until approved by the authority designated to approve them, and the Contractor's number will not be delivered, nor any distribution made, until such approval. All changes and deletions must have been made before the contract is forwarded for approval.

8. The number of executed copies and of certified copies, designation of disbursing officer, statement of appropriation, amount of bond if required, as well as other administrative details, shall be as directed by the Chief of Branch to which the contract pertains.

9. An officer of a corporation, a member of a partnership, or an agent signing for the principal, shall place his signature and title after the word "By" under the name of the principal. A contract executed by an attorney or agent on behalf of the Contractor shall be accompanied by two authenticated copies of his power of attorney, or other evidence of his authority to act on behalf of the Contractor.

10. If the Contractor is a corporation, one of the certificates following the signature of the parties must be executed. If the contract is signed by the secretary of the corporation, then the first certificate must be executed by some other officer of the corporation under the corporate seal, or the second certificate executed by the Contracting Officer. In lieu of either of the aforementioned certificates there may be attached to the contract copies of so much of the records of the corporation as will show the official character and authority of the officer

signing, duly certified by the secretary or assistant secretary, under the corporate seal, to be true copies.

11. The full name and business address of the Contractor must be inserted, and the contract signed with his usual signature. Typewrite or print name under all signatures to contract or bonds.

12. Any provisions respecting labor or materials required by law to be included in this contract and any additional contract provisions deemed necessary for the particular work shall be made the subject of one or more additional articles or included in the specifications, appendix "A."

APPENDIX "B"

To Contract No. W6357 qm-216, dated September 9, 1940 between the UNITED STATES OF AMERICA and T. A. LOVING & COMPANY, Goldsboro, North Carolina.

1. The following changes were made in the afore-mentioned contract before it was signed:

(a) In Article II, Section 1 (c) lines 1, 2, and 3 the words "mentioned in the schedule of rental rates in Appendix "B", hereto attached and made a part hereof, except as hereinafter set forth.", were deleted therefrom and in lieu thereof the following words were inserted: "approved by the Contracting Officer."

(b) In Article II, Section 1 (d), the following phrase was inserted in line 1 between the words "unloading" and "of": "at the site of the work". There was also inserted in line 3 in said Article and Section between the words "work" and "except" the phrase: "and return transportation f. o. b. cars to the point of original shipment or equivalent mileage".

(c) In Article II, Section 2, lines 2 and 3, the words "mentioned in the schedule of rental rates hereto attached, except as hereinafter set forth" were deleted therefrom and in lieu thereof the following words were inserted: "approved by the Contracting Officer."

(d) In Article IX, Section 2, the following sentence was added at the end thereof: "The provisions of this section shall not apply when wage rates for a particular classification greater than those prescribed by the Secretary of Labor have been approved in writing by the Contracting Officer who executed this contract or his successor."

Change Order A

WAR DEPARTMENT, O. Q. M. G.

AUTHORIZATION AND APPROVAL OF WAGE RATES IN EXCESS OF THOSE PREDETERMINED BY THE SECRETARY OF LABOR

Reference is made to Contract No. W-6357-QM 216, Dated 9/9/40, between the United States of America, signed for and in behalf thereof by C. D. Hartman, Brigadier General, Quartermaster Corps, as Contracting Officer, and T. A. Loving and Company, Goldsboro, North Carolina, for the construction of Complete Cantonment Camp including necessary buildings, temporary structures, utilities and appurtenances thereof at Fort Bragg, Fayetteville, North Carolina. It has been determined that in order to complete promptly and efficiently the work provided for thereunder, it is necessary that the Contractor and Sub-Contractor pay to laborers and mechanics a higher rate of wages than the predetermined minimum rates prescribed by the Secretary of Labor for classifications enumerated below.

Therefore, in accordance with Section 2, Article IX, as amended by Appendix "B," of the Contract, the Contracting Officer hereby approves as a reimbursable cost to the Contractor and sub-contractors, payment of the following rates of wages:

For the operation of heavy power equipment, a rate between the limits of 50¢ (Fifty Cents) and \$1.00 (One Dollar) per hour, as may be determined applicable for each classification, by the Constructing Quartermaster.

Date September 17, 1940.

By direction of the Contracting Officer.

E. E. KIRKPATRICK, *Captain, Q. M. C.*

Authenticated copies:

1 To C. Q. M.

1 To Disbursing Officer.

1902 INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

- 1 To Contracting Officer.
- 1 To Legal Section.
- 1 To Adm. Sec. O. Q. M. G. (Lab. Rel.).
- 1 To Fixed Free Branch.

Executed numbers: 1 To C. Q. M. for contractor; 2 To Legal Section (See A2 5-200, par. 15 & 19).

Change Order B

WAR DEPARTMENT, O. Q. M. G.

AUTHORIZATION AND APPROVAL OF WAGE RATES IN EXCESS OF THOSE PREDETERMINED BY THE SECRETARY OF LABOR

Reference is made to Contract No. W-6357 qm-216, Dated 9/9/40, between the United States of America, signed for and in behalf thereof by C. D. Hartman, Brigadier General, Quartermaster Corps, as Contracting Officer, and T. A. Loving and Company, Goldsboro, North Carolina, for the construction of Complete Cantonment Camp including necessary buildings, temporary structures, utilities and appurtenances thereof, at Fort Bragg, Fayetteville, North Carolina, It has been determined that in order to complete promptly and efficiently the work provided for thereunder, it is necessary that the Contractor and Sub-Contractor pay to laborers and mechanics a higher rate of wages than the predetermined minimum rates prescribed by the Secretary of Labor for classifications enumerated below.

Therefore, in accordance with Section 2, Article IX, as amended by Appendix "B", of the Contract, the Contracting Officer hereby approves as a reimbursable cost to the Contractor and Sub-Contractors, payment of the following rates of wages:

Classification:	Rate
Steamfitters-----	\$1. 25 per hour
Plumbers-----	1. 25 " "
Operators of heavy power equipment:	
Tractor with dozers-----	1. 00 " "
Tractor with pans-----	1. 00 " "
Finishing machine-----	0. 75 " "
Motor grader-----	0. 75 " "
Roller-----	0. 60 " "
Distributor-----	0. 60 " "

This change order rescinds and supersedes all provisions of change order "A", effective this date.

Date September 17, 1940.

By direction of the Contracting Officer.

E. E. KIRKPATRICK, *Capt. Q. M. C.*

Authenticated copies:

- 1 To C. Q. M.
- 1 To Disbursing Officer.
- 1 To Contracting Officer.
- 1 To Legal Section.
- 1 To Fixed Fee Section.
- 1 To Adm. Sec. O. Q. M. G. (Lab. Rel.).

Executed number : 1 To C. Q. M. for contractor, 2 To Legal Section (See AR 5-200, par. 15 & 19).

Change Order C

WAR DEPARTMENT, O. Q. M. G.

AUTHORIZATION AND APPROVAL OF WAGE RATES IN EXCESS OF THOSE PREDETERMINED BY THE SECRETARY OF LABOR

Reference is made to Contract No. W-6357 qm-216, Dated 9/9/40, between the United States of America, signed for and in behalf thereof by C. D. Hartman, Brigadier General, Quartermaster Corps, as Contracting Officer, and T. A. Loving and Company, Goldsboro, North Carolina, for the construction of Complete cantonment camp, including necessary buildings, temporary structures, utilities, and appurtenances thereof, at Fort Bragg, Fayetteville, North Carolina. It has been

determined that in order to complete promptly and efficiently the work provided for thereunder, it is necessary that the Contractor and Sub-Contractor pay to laborers and mechanics a higher rate of wages than the predetermined minimum rates prescribed by the Secretary of Labor for classifications enumerated below.

Therefore, in accordance with Section 2, Article IX, as amended by Appendix "B", of the Contract, the Contracting Officer hereby approves as a reimbursable cost to the Contractor and Sub-Contractors, payment of the following rates of wages:

Classification	Established basic rate	Revised basic rate
Carpenter.....	\$0.75 per hour.....	\$0.90 per hour.

Date: November 1, 1940.

By direction of the Contracting Officer.

E. E. KIRKPATRICK,
Captain, Q. M. C.

Distribution—Construction Division—Office of The Quartermaster General.

Authenticated Copies:

- 1 To C. Q. M.
- 1 To Disbursing Officer.
- 1 To Contracting Officer.
- 1 To Legal Branch.
- 1 To Fee Building Branch.
- 1 To Admin. Branch (Lab. Rel.).

Executed Numbers: 1 To C. Q. M. for contractor, 2 To Legal Branch (See AR 5-200, par. 15 & 19).

J. T. O'C.

L. E. B., I. F. B., (Form) H. W. J., L. M., E. E. K., H. W. L.

40/1946.

WAGE ADJUSTMENT AUTHORIZATION

WAR DEPARTMENT, O. Q. M. G.

In lieu of Change Order D

AUTHORIZATION AND APPROVAL OF WAGE RATES IN EXCESS OF THOSE PREDETERMINED BY THE SECRETARY OF LABOR

Reference is made to Contract No. W 6357 qm-216, Dated 9/9/40, between the United States of America, signed for and in behalf thereof by C. D. Hartman, Brigadier General, Quartermaster Corps, as Contracting Officer, and T. A. Loving Company, for the construction of complete cantonment camp, including necessary buildings, temporary structures, utilities and appurtenances thereto, at Fort Bragg, Fayetteville, North Carolina. It has been determined that in order to complete promptly and efficiently the work provided for thereunder, it is necessary that the Contractor and Sub-Contractor pay to laborers and mechanics a higher rate of wages than the predetermined minimum rates prescribed by the Secretary of Labor for classifications enumerated below.

Therefore, in accordance with Section 2, Article IX, as amended by Appendix "B", of the Contract, the Contracting Officer hereby approves as a reimbursable cost to the Contractor and Sub-Contractors, payment of the following rates of wages:

Classification	Time Worked on: Saturdays	Sundays	Holidays
Plumbers.....	1½ x Basic Rate.....	1½ x Basic Rate.....	1½ x Basic Rate.
Plumbers' Helpers.....	1½ x Basic Rate.....	1½ x Basic Rate.....	1½ x Basic Rate.

Date: November 4, 1940.

By direction of the Contracting Officer:

E. E. KIRKPATRICK, Captain, Q. M. C.

Authenticated Copies:

- 1 To Contracting Officer
- 1 To CQM
- 1 To Disbursing Officer
- 1 To Fee Building Branch
- 1 To Legal Branch
- 1 To Accounting & Auditing Branch
- 1 To Funds & Estimates Branch
- 1 To Admin. Branch (Lab. Rel.)

J. T. O'C.

Executed Numbers: 1 To CQM for Contractor, 2 To Legal Branch for distribution.

L. E. B., J. W. Y., H. W. J., L. M., E. E. K., L. R. G.

(See AR 5-200, par. 15 & 19.)

40/2167.

DEC. 12, 1940.

Identified as the detailed estimate of cost of Supplements Nos. 1, 2, and 3 on which the cost-plus-a-fixed-fee construction contract (supplemental) at Fort Bragg, N. C., was negotiated this date.

UNITED STATES OF AMERICA,
By: E. F. SHEPHERD, *Captain, Q. M. C., Assistant.*

Contractors:

[SEAL]

T. A. LOVING & COMPANY,

By T. A. Loving, *President,*R. A. BRYAN, *Sec.*

Attest:

Approved:

ELMER J. WALLUS, *Engineering Branch.*

Identified:

H. W. LOVING, *Asst. to Chief Fixed Fee Branch.*

40/2185.

September 6, 1940

QM 354 C-E (Fort Bragg, N. C.)

REVISED DESCRIPTION AND ESTIMATE OF TEMPORARY BUILDINGS—FORT BRAGG, N. C.

J. M. Strickland, Engineering Coordinator, Chief Engineering Branch

1. DESCRIPTION OF PROJECT

The following is a revised description of above, superseding same of September 4, 1940. This project consists of construction of all necessary buildings, extensions to utilities and appurtenances necessary to accommodate increase of personnel at this camp, and is composed of approximately 655 temporary buildings in two (2) adjacent sites.

2. ESTIMATE OF CONSTRUCTION COST

General utilities:

Electric	\$97, 000
Grading & Clearing	90, 000
Railroad	30, 000
Roads & Walks	75, 000
Sewers	70, 000
Telephones	50, 000
Water	80, 000

492, 000

Temporary buildings:

218 E. M. Barracks W/Lav @ \$7,000	1, 526, 000
106 E. M. Mess @ \$5,000	530, 000
107 E. M. Day-Room @ \$1,800	192, 600
107 E. M. Storehse & Co. Adm. @ \$1,800	192, 600
15 Officers' Quarters W/O Mess @ \$16,450	246, 750
1 Officers' Quarters @ \$3,400	3, 400
7 Officers' Mess @ \$3,900	27, 300
2 Administration Bldgs. (Div.) @ \$5,000	10, 000
5 Administration Bldgs. (Regt.) @ \$4,000	20, 000
6 Administration Bldgs. (BN.) @ \$2,850	17, 100

Temporary buildings—Continued.

8 Guard Houses (Regt.) @ \$2,800	\$22, 400
3 Fire Stations (Brig.) @ \$7,000	21, 000
1 Post Office (Div.) @ \$6,500	6, 500
1 Tel. & Tel. Building @ \$4,350	4, 350
4 Post Exchanges @ \$5,500	22, 000
5 Post Exchanges @ \$8,200	41, 000
8 Recreation Buildings @ \$8,500	68, 000
1 Theatre, 1,000 Seats @ \$55,000	55, 000
8 Infirmaries @ \$6,800	54, 400
1 QM Utility Shop @ \$12,000	12, 000
9 Motor Repair Shops @ \$7,500	67, 500
4 Blacksmith Shops W/SG Qtr. @ \$1,950	7, 800
10 Enclosed 13 day Stables @ \$4,440	44, 400
1 Hay Shed Enclosed @ \$2,200	2, 200
12 Warehouses Non-Insulated, @ \$18,900	226, 800
2 Warehouses Insulated, @ \$20,000	40, 000
1 Q. M. Gasoline Storage Building	52, 500
1 Incinerator	20, 000
1 Cold Storage, @ \$100,000	100, 000
1 Bakery	37, 000
1 Laundry	150, 000
Total Cost Temporary Buildings	3, 820, 600
Total Project cost (Including 11% for overhead engineering and contingencies)	4, 312, 600
Less 11% for above items	27, 375
Net Total Construction Cost	3, 885, 225

3. ENGINEERING INFORMATION AVAILABLE

a. Location of construction has been selected by the C. Q. M. and approved by Post Planning with directions to proceed in preparation of layout of buildings and will be furnished as soon as available.

b. Drawings and specifications for housing buildings totaling \$3,820,600 are completed and in the hands of the C. Q. M. with the exception of Laundry and Cold Storage which will be available shortly.

c. Typical standard plans and specifications will be furnished for guidance of Architect-Engineer.

4. DESCRIPTION OF WORK TO BE DONE BY ARCHITECT-ENGINEER

The Architect-Engineer will be required to assist in adapting the camp layout prepared by the C. Q. M. to the site. This work will be done in collaboration with the Constructing Quartermaster. The engineer will subsequently design the utilities necessary for the entire camp project and provide technical supervision for the entire construction of the project, subject to the administrative control of the C. Q. M. The work is not of an unusual character, but must be handled in the most practical way to insure speedy completion. The net construction cost of utilities to be designed is \$443,243.

5. BRIEF DESCRIPTION OF WORK TO BE DONE BY CONTRACTOR

There is no unusual work or special equipment involved in this project other than that generally described in Paragraph 1 above.

6. SUMMARY

(a) Construction cost, including contractor's fee	\$3, 885, 225
(b) Engineering, including fee, 4%	155, 409
(c) Administrative Overhead, 2%	77, 704
(d) C. Q. M. Overhead and Contingencies, 5%	194, 262
Total Project, exclusive of land	4, 312, 600
Estimated Funds	4, 560, 600

STRICKLAND.

1906 INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

October 11, 1940

QM 652 C-E

DESCRIPTION AND ESTIMATE OF SUPPLEMENT NO. 1, TEMPORARY BUILDINGS, FORT BRAGG, N. C.

J. M. Strickland, Engineering Coordinator, Chief Engineering Branch

1. DESCRIPTION OF PROJECT

This Supplement No. 1 incorporates additions to the original project and provides for additional construction for additional units as follows:

National Guard	Officers and war- rant officers	Enlisted men	Animals	Vehicles
(a) 112th F. A. Reg't. (75 MM Hd.).....	72	1,303	910	91
(b) 178th F. A. (155 MM How.).....	70	1,368	-----	246
(c) 134th Med. Reg't.....	58	864	-----	132
(d) 112th Obs. Sqn.....	38	159	-----	-----

Additional construction for housing items (a), (b), and (c), includes approximately 217 temporary buildings and extension to utilities.

Additional construction for housing item (d), includes 7 temporary buildings, extension to utilities, Air Corps Technical construction, comprising Parking Aprons, Taxiway, Ramp to Hangar, and one Hangar and Shop Building.

This Supplement No. 1 also incorporates additional construction for additional units to the Regular Army as follows:

	Officers and warrant officers	Enlisted men
9th Div. (Original & Misc. Units).....	494	11,054
Add. const. in this Supplement No. 1 provides for.....	228	6,665
Total.....	722	17,719

Additional construction for housing additional units to 9th Div. includes approximately 187 temporary buildings, magazines, shops, warehouses, changes to laundry and bakery, extension to utilities and gasoline storage.

2. ESTIMATE OF CONSTRUCTION COST

(a) Items not to be designed by the Architect-Engineer.

	Gross cost	Net cost
1. Supplemental telephone.....	\$19,000	-----
2. Supplemental telephone (9th Div.).....	22,300	-----
Subtotal.....	41,300	-----
Less 11% allowance for overhead and engineering.....	4,093	\$37,207

(b) Items to be designed by Architect-Engineer.

	Gross cost	Net cost
(c) General Utilities (112th F. A., 178 F. A., and 134th Med. Reg't.).....	\$196,000	-----
Suppl. Utilities, 112 Obs. Squad.....	12,500	-----
Suppl. Utilities, 9th Div.....	343,000	-----
Subtotal.....	551,500	-----
Less 11% allowance for overhead and engineering.....	54,654	\$496,846

(c) Temporary Bldgs. (112th Obs. Squadron.)

Number of units	Item	Gross unit cost	Gross cost	Net cost
3	Barracks W/Lav. Stand.....	\$7,500	\$22,500	-----
1	Mess, Stand.....	4,800	4,800	-----
1	Day Room A-5.....	2,500	2,500	-----
1	Strhse., SH-8.....	2,200	2,200	-----
1	Off. Qtrs. & Mess O. Q. M. 40.....	14,000	14,000	-----
	Parking aprons, inc. taxiways and ramp to hangar, 17,500 sq. yds.....		28,875	-----
1	Hangar and Shops.....	120,000	120,000	-----
	Subtotal.....		194,875	-----
	Less 11% allowance for overhead and engineering.....		19,312	\$175,563

(d) Temporary Buildings (112th F. A., 178 F. A., 134 Med. Regt.).

Number of units	Item	Gross unit cost	Gross cost	Net cost
64	Barracks W/Lav. Stand.....	\$7,500	\$480,000	-----
30	Mess, Stand.....	4,800	144,000	-----
30	Day Room A-5.....	2,500	75,000	-----
30	Strhse. and Co. Adm. SA-1.....	2,000	60,000	-----
5	Off. Qtrs. W/O Mess.....	13,000	65,000	-----
3	Off. Mess Stand.....	4,300	12,900	-----
3	Adm. Bldgs. Regt.....	4,800	14,400	-----
1	Guard Hse. Bn. GH-1.....	2,250	2,250	-----
2	Guard Hse. Regt. GH-2.....	3,500	7,000	-----
1	Post Exchange E-2.....	6,000	6,000	-----
2	Post Exchange E-3.....	8,500	17,000	-----
3	Recreational Bldgs. RB-1.....	9,600	28,800	-----
1	Guest House Stand.....	16,500	16,500	-----
3	Infirmery I-2.....	6,800	20,400	-----
1	Utility Shop SP-9.....	5,000	5,000	-----
4	Mot. Rep. Shops SP-2.....	7,000	28,000	-----
4	Gas Stations GOS-2.....	4,200	16,800	-----
17	Mot. Sheds Enc. S-D 17.....	4,400	74,800	-----
6	Blacksmith Shops Stand.....	1,950	11,700	-----
1	Hay Shed SD-15.....	2,200	2,200	-----
3	Storehouses, Reg't. SH 9.....	4,000	12,000	-----
2	Warehouses, Non-Ins. SH 13.....	12,000	24,000	-----
1	Warehouses, Ins. SH 18.....	14,000	14,000	-----
	Magazines.....		13,000	-----
	Subtotal.....		\$1,150,750	-----
	Less 11% all. for overhead & Eng.....		114,038	\$1,036,712

(e) Additional Temporary Bldg. (9th Division).

Number of units	Item	Gross unit cost	Gross cost	Net cost
76	Barracks W/Lav. Stand.....	\$7,500	\$570,000	-----
36	Barracks W/Lav. Stand.....	5,700	205,200	-----
42	Barracks, Alt. to existing 170 M to make 210 men.....	400	16,800	-----
4	Mess, Stand. 170 men.....	4,800	19,200	-----
3	Mess, Stand. 210 men.....	5,100	15,300	-----
1	Mess, Stand. 250 men.....	5,400	5,400	-----
7	Day Rooms A-5.....	2,500	17,500	-----
7	Strhse & Co. Adm. SA-1.....	2,000	14,000	-----
4	Off. Qtrs. W/Mess OQM 40.....	13,000	52,000	-----
1	Off. Qtrs. W/Mess Q 8.....	3,100	3,100	-----
1	Post Exchange E-2.....	6,000	6,000	-----
1	Post Exchange E-3.....	8,500	8,500	-----
1	Theatre TH-3.....	40,000	40,000	-----
1	Service Club SC-3.....	37,750	37,750	-----
1	Guest House Stand.....	16,500	16,500	-----
1	Dental Clinic DC-1.....	16,500	16,500	-----
2	Motor Repair Shop SP-2.....	7,000	14,000	-----
8	Strhse. Regt. SH-9.....	4,000	32,000	-----
5	Warehouses (Non-ins.) SH-13.....	12,000	60,000	-----

(f) Additional Temporary Bldg. (9th Division)—Continued.

Num- ber of units	Item	Gross unit cost	Gross cost	Net cost
1	Warehouse (Ins.) SH-18.....	\$14,000	\$14,000	-----
1	Bakery BAK-4.....	58,000	58,000	-----
1	Laundry Increased 20,000 Men.....		300,000	-----
2	Gas Stor. Q. M., 12,000 gal. @ .35.....	4,200	8,400	-----
	Subtotal.....		1,530,150	-----
	Deductions from Original Project:			-----
1	Bakery BAK-2.....	37,000	37,000	-----
1	Laundry 10,000 Men.....	150,000	150,000	-----
	Total.....			\$187,000
	Subtotal, temporary additions.....		1,530,150	-----
	Less deductions.....		187,000	-----
	Gross Additional Cost Temp. Add.....		1,343,150	-----
	Less 11% allowance for overhead and engineering.....		133,105	1,210,045
	Grand total supplemental additional cost of project.....		3,281,575	-----
	Less Tel. Const. (To be done by Signal Corps).....		41,300	-----
	Grand total supplemental additional const. cost.....		3,240,275	-----
	Less 11% allowance for overhead and engineering.....		321,108	2,919,167

3. ENGINEERING INFORMATION AVAILABLE

(a) Many of the buildings comprising the original project will be duplicated in the additional housing. Drawings and specifications which are complete for other buildings will be transmitted to the C. Q. M. immediately. Other drawings will be sent as soon as available.

(b) Typical standard plans and specifications will be furnished for guidance of Architect-Engineer.

4. DESCRIPTION OF WORK TO BE DONE BY ARCHITECT-ENGINEER

(a) The Architect-Engineer will perform the necessary surveys, assist in adapting, to the field survey, the camp layout prepared by the C. Q. M., design the necessary utilities required or adapt same to the changes in buildings and facilities incorporated in this supplement, and provide technical supervision for the construction of all of the above, subject to the administrative control of the C. Q. M. The work is not of an unusual character, but must be handled in the most practical way to insure speedy completion.

(b) The Architect-Engineer will *not be required* to design the supplemental telephone construction. This work will be executed and supervised by the Signal Corps.

5. BRIEF DESCRIPTION OF WORK TO BE DONE BY CONTRACTOR

(a) There is no unusual work or special equipment involved in the change of this project required by this supplement other than generally described in Paragraph 1.

(b) The contractor will do all construction for all items listed in Paragraphs 1 and 2 except telephone construction, which will be done by Signal Corps.

The Government is to furnish the structural steel, doors, and tracks, for item "Hangar and Shop" listed in Paragraph 2 (c).

6. SUMMARY

(a) Net Differential Add. Supplemental cost incl. contractors' fee	\$2, 919, 167
(b) Engineering, including fee, 4%	116, 767
(c) Administrative Overhead, 2%	58, 383
(d) Contingencies and C. Q. M. overhead, 5%	145, 958
Total, exclusive of land	3, 240, 275

7. GENERAL SUMMARY OF SUPPLEMENT NO. 1

Original Utilities Estimated Cost	492, 000
Original Temporary Bldgs. Est. Cost	3, 820, 600
Gross total of Original Project	4, 312, 600
Original Utilities Est. Cost	492, 000
Original Temporary Bldgs. Est. Cost	3, 820, 600
Supplemental Utilities Est. Cost	551, 500
Items Not Designed by Architect-Eng	41, 300
Supplemental Temp. Bldgs.—Est. Cost	2, 688, 775
Total	7, 594, 175
Less Telephone Const.	41, 300
Gross Total of Orig. & Supplemental Projects	7, 552, 875
Gross Total of Original Project	4, 312, 600
Gross Supplemental Additional Difference	3, 240, 275

STRICKLAND.

K. C.

October 24, 1940.

Q. M. 652 C-E

DESCRIPTION AND ESTIMATE OF SUPPLEMENT NO. 2, TEMPORARY BUILDINGS,
FORT BRAGG, N. C.

J. M. Strickland, Engineering Coordinator, Chief Engineering Branch

1. DESCRIPTION OF PROJECT

This Supplement No. 2 incorporates additions and deductions to the original project and Supplement No. 1. This instrument provides for additional construction of units for a temporary 1,625-bed hospital on a 2,000-bed basis and for deduction of all buildings and utilities previously provided for the 112th Obs. Squadron in Supplement No. 1.

2. ESTIMATE OF CONSTRUCTION COST

a. Items not to be covered by contract of the Architect-Engineer and not to be covered by contract of the Contractor.

	Gross cost	Net cost
Telephone (original project)	\$50, 000	

b. Items to be covered by contract of the Architect-Engineer and contract for the construction.

Temporary hospital buildings

Num- ber of units	Item	Gross unit cost	Gross cost	Net cost
1	Administration Bldg., A-3.....	\$8,150.00	\$8,150	-----
8	Nurses' Qtrs., HQ-24.....	11,900.00	95,200	-----
3	Officers' Qtrs., HQ-24.....	9,500.00	28,500	-----
1	Officers' Mess, M-28.....	20,850.00	20,850	-----
11	Barracks Med. Det., HB-54.....	8,250.00	90,750	-----
1	Mess, E. M. Med. Det., M-14.....	23,500.00	23,500	-----
1	Clinic, Med. Comb., C-1B.....	12,600.00	12,600	-----
1	Clinic, Surg. & X-ray, C-4.....	12,600.00	12,600	-----
1	Infirmary, I-2.....	6,800.00	6,800	-----
1	Physio-Therapy Bldg., PY-1.....	11,400.00	11,400	-----
36	Wards, W-1.....	11,450.00	412,200	-----
14	Wards, Comb. Std., W-2.....	12,000.00	168,000	-----
3	Wards, Det., W-8.....	14,150.00	42,450	-----
2	Mess. Patients', M-18.....	28,400.00	56,800	-----
1	Storehouse, M. D. w/Dis.....	12,300.00	12,300	-----
6	Storehouses, M. D. w/Shelv.....	8,000.00	48,000	-----
1	Morgue, MO-4.....	11,000.00	11,000	-----
5,200	1 f. Covered Walk (open) WK-1.....	5.00	26,000	-----
7,600	1 f. Covered Walk (enc.) WK-2.....	12.00	91,200	-----
5,200	1 f. Service Road.....	2.50	13,000	-----
1,350	1 f. Stockage Fence.....	1.50	2,025	-----
1	Heating Plant, HBH-19.....	154,000.00	154,000	-----
*1	Clinic, C-7A.....	13,620.00	(13,620)	-----
*1	Dental Clinic, DC-1.....	16,500.00	(16,500)	-----
*1	Post Exchange, E-1.....	5,500.00	(5,500)	-----
*3	Recreation Bldgs., A-5.....	2,500.00	(7,500)	-----
	Sub-Total.....		1,347,325	-----
	Less 11% allowance for overhead and engineering.....		133,519	\$1,213,806

*NOTE.—These items not authorized in contract and not included in the work covered by this supplement. Change in wording authorized by Fred Warren 12/3/40.

c. Deductions.

Temporary Buildings (112th Obs. Squadron)

Num- ber of units	Item	Gross unit cost	Gross cost	Net cost
3	Barracks w/Lav., Stand.....	\$7,500	\$22,500	-----
1	Mess, Stand.....	4,800	4,800	-----
1	Day Room, A-5.....	2,500	2,500	-----
1	Strhse., SH-8.....	2,200	2,200	-----
1	Off. Qtrs. & Mess., O. Q. M. 40.....	14,000	14,000	-----
	Parking aprons, inc. taxiways & ramp to hangar, 17,500 sq. yds.....		28,875	-----
1	Hangar and Shops.....	120,000	120,000	-----
	Subtotal.....		194,875	-----
	Less 11% allowance for overhead and engineering.....		19,312	\$175,563

d. Grand Total Differential.

Items	Deductions	Additions	Gross cost	Net cost
Para. 2b (above).....		\$1,347,325	\$1,347,325	\$1,213,805
Para. 2c (above).....	\$194,875		194,875	175,563
Gross Differential, an addition of.....			1,152,450	1,038,243
Less Telephone Const., orig. project (done by Signal Corps).....			50,000	-----
NOTE.—The original project included \$50,000 for telephone construction. This is deducted since this will be done by the Signal Corps.				
Gross Add. Constr. Cost.....			1,102,450	-----
Less 11% allowance for overhead and engineering.....			109,252	-----
Total Net Const. Cost, Supp. #2.....				993,198

DESCRIPTION AND ESTIMATE OF SUPPLEMENT NO. 2, TEMPORARY BUILDINGS, FORT BRAGG, N. C.

J. M. Strickland, Engineering Coordinator, Chief Engineering Branch

3. ENGINEERING INFORMATION AVAILABLE

a. Drawings and specifications for additional buildings of this supplement are mostly complete. Those which are complete will be transmitted to the C. Q. M. immediately. The remainder will be sent as soon as available.

b. Typical standard plans and specifications will be furnished for guidance of the Architect-Engineer.

c. Any additional field survey data required shall be obtained in the field.

4. DESCRIPTION OF WORK TO BE DONE BY ARCHITECT-ENGINEER

a. The Architect-Engineer will perform the necessary surveys, assist in adapting, to the field survey, the camp lay-out prepared by the C. Q. M., design the necessary utilities required or adapt same to the changes in buildings and facilities incorporated in this supplement, and provide technical supervision for the construction of all of the above, subject to the administrative control of the C. Q. M. The work is not of an unusual character, but must be handled in the most practical way to insure speedy completion.

b. The Architect-Engineer will not be required to include telephone construction in his contract. This work will be executed and supervised by the Signal Corps.

5. BRIEF DESCRIPTION OF WORK TO BE DONE BY CONTRACTOR

a. There is no unusual work or special equipment involved in the change of this project required by this supplement other than generally described in Paragraph 1.

b. The contractor will do all construction for all items listed in Paragraph 2-b, except telephone construction, which will be done by the Signal Corps.

6. SUMMARY

	Net cost
a. Supplemental Net Construction Cost-----	\$993, 198
b. Engineering, Including fee, 4%-----	39, 728
c. Administrative overhead, 2%-----	19, 864
d. Contingencies and C. Q. M. overhead, 5%-----	49, 660

Additional Gross Total Differential, exclusive of land. Estimated

Gross Supplement #2 to General Contract----- 1, 102, 450

STRICKLAND.

evs

FORM "A"

November 28, 1940.

File No. QM 652 C-E (Fort Bragg, N. C.)

DESCRIPTION AND ESTIMATE OF SUPPLEMENT #3, FORT BRAGG, N. C. (F. F.)

1. DESCRIPTION OF PROJECT

(a) This *Supplement #3* incorporates additions and deductions to the original project and to previous Supplements. Provision is made in this Supplement #3 for housing and hospitalization as follows:

- (1) *Regular Army Increase*—IV Corps Area. Housing included for increased units and for additions and deductions to previously estimated hospital.
- (2) *Replacement Center*—IV Corps Area. Housing included for Replacement Center units and for a Second Cantonment Hospital.

(3) *Regular Army Increase*—Housing provided for the following units:

Unit	Officers and warrant officers	Enlisted men	Enlisted men increase (this estimated)
Increases to Existing Units:			
9th Division.....	612	14,606	(1)
Hq. & Hq. Btry. 13th F. A. Brig.....	12	84	10
17th F. A. (155-mm. How.).....	69	1,368	347
36th F. A. (155-mm. Gun).....	77	1,509	371
1st F. A. Bn. (Oban.).....	22	394	41
4th F. A. (75-mm. How. Pk.).....	72	1,543	138
1st Bn. 6th F. A. (75-mm. gun. hd.).....	25	561	65
1st Bn. 79th F. A. (240-mm. How.).....	25	600	90
67th C. A. (A. A.).....	75	1,800	1,276
76th C. A. (A. A.).....	75	1,800	² 1,276
77th C. A. (A. A.).....	75	1,800	² 1,276
41st Engr. Regt. (G. S.).....	45	1,176	1476
15th Ord. Co. (M. M.).....	6	140	72
Cos. C. & D. 67th QM. Bn. (L. M.).....	8	330	150
Cos. E. & F. 47th QM. Regt. (Trk.).....	9	200	² 20
34th Ord. Co. (M. M.).....	6	140	72
Co. B 55th QM. Regt. (H. M.).....	3	224	104
Subtotals Increases.....	1,216	28,275	5,784
New Units:			
General Hospital.....	3	250	250
Hq. & Hq. Btry. C. A. Brig.....	10	72	72
QM. Co. (Dep. H. M.).....	4	290	290
QM. Co. (Gas. Sup.).....	2	95	95
HQ. QM. Bn. (Trk.).....	2	16	² 16

¹ Estimated Oct. 1, 1940.² Colored.

EXHIBIT No. 93

PLANT AND EQUIPMENT

ARTICLE 7.—The Contractors shall provide all plant and equipment required for the accomplishment of the work under this contract, but no article or piece of equipment costing in excess of \$200 shall be purchased and none shall be rented at a rental rate in excess of \$100 per month except after prior approval in writing by the Contracting Officer or a duly authorized representative.

The rental compensation for items of plant and equipment owned or controlled by the Contractors shall be calculated on the basis of cost to the Contractors with no allowance for profit. There will be included unless otherwise financed (a) insurance premiums; (b) depreciation; (c) property taxes; (d) interest on investment; (e) general administration and plant expenses. Rental compensation under this paragraph shall be calculated, for the equipment listed therein, in accordance with such Plant and Equipment Cost and Rental Schedule, as may be required and approved by the Contracting Officer.

In the case of any items of plant and equipment owned or controlled by the Contractors but not listed in said schedule, rental compensation under this paragraph shall be calculated in the same manner and upon the same basis. Fifteen percent (15%) will be retained from all rental compensation payable under this paragraph to provide for proper reimbursement on account of possible savings under the arrangement set forth in said schedule.

All equipment shall be delivered to the work in first class working condition. During the progress of the work repairs shall be made as required by the exigencies of the work. At the end of the work, the equipment shall be overhauled and placed in as good condition as when delivered to the work, minus ordinary wear and tear for which the depreciation allowance noted above is considered to be adequate compensation. The cost of these repairs and overhauls shall constitute items of cost under the contract.

In calculating payments for plant rentals no deduction from or additions to the normal monthly rates shall be made on account of idle time or shift work, respectively.

In calculating the actual rental costs the total allowance for "depreciation" shall not exceed 50% of the "insurable value" of the equipment when it was delivered to the work.

The Contracting Officer may in his discretion and on behalf of the Government, take possession at any place he may elect of any item of plant or equipment for the purpose of transporting it to the site where it is to be used or held for further disposition and may subsequently return any such item to the possession of the Contractors for use on the work.

Final disposition of all items of the Government plant and equipment shall be made as directed by the contracting Officer.

The title to each item of plant and equipment purchased for the Government passes to the Government when acceptance of title is authorized or approved by the Contracting Officer or a duly authorized representative.

The Contractors agree to use such items of plant and equipment and such shop, storage, transportation, communication, and other facilities owned by the Government as may be available to them and as directed by the Officer in Charge.

EXHIBIT No. 94

SANDERSON & PORTER, ENGINEERS

San Francisco

Chicago

SANDERSON & PORTER

ENGINEERS

52 William Street, New York

MAY 15, 1941.

Mr. HUGH A. FULTON,
*Chief Counsel, United States Senate,
Special Committee Investigating the National Defense Program,
Washington, D. C.*

DEAR SIR: Replying to your letter dated April 29, 1941, we submit the following answers to the questionnaire "Information to be furnished by those having cost-plus-fixed-fee contracts" enclosed therein:

(1) Comparative balance sheets for the five years ending December 31, 1940, are attached hereto as Exhibit I. Copy of letter dated July 25, 1940, from John E. Bierwirth, Vice President, The New York Trust Company, attached hereto as Exhibit II.

(2)

	Gross fees	Net profit
1936	\$958, 827. 12	\$382, 248. 90
1937	1, 088, 919. 69	374, 025. 89
1938	647, 578. 75	144, 594. 01
1939	432, 509. 75	98, 836. 73
1940	1 735, 445. 44	251, 418. 60

(3)

	West Penn Power Co.	Potomac Edison Co.	Monongahela West Penn Public Service Co.
Total cost	\$6, 354, 000. 00	\$2, 789, 000. 00	\$3, 340, 000. 00
Fee base	4, 250, 000. 00	2, 732, 000. 00	2, 360, 000. 00
Fixed fee	234, 000. 00	154, 000. 00	135, 000. 00
Profit	162, 228. 99	52, 149. 06	57, 242. 51

¹ Receipts and disbursements during the year 1940 for materials and labor in connection with the construction of the Elwood Ordnance Plant for the United States government under a cost-plus-fixed-fee contract dated Sept. 19, 1940, are not included herein; fees for services are included. With respect to other work, material and labor have been paid for directly by our clients.

(4) We are proceeding with the preparation as Exhibit III of the list of equipment as requested and will forward the same promptly. The Contractor has not

purchased any equipment for its own account (that is, as Contractor-owned equipment) in order to perform the contract. Construction equipment has been purchased where deemed to be more economical than rental. The Contractor, of course, also has purchased permanent plant operating equipment.

(5) The Contractor has not leased or borrowed any equipment for the purpose of renting the same to the government under the contract. The Contractor has rented from others construction equipment as authorized by the contract. Reimbursement is claimed only for the rental actually paid. Enclosed herewith as Exhibit IV is a list of the equipment that has been rented, and the rental rates per unit. In many cases, additional rent is payable for "second shift" operation. Some of the equipment listed has been returned to the lessors because no longer needed.

(6) Attached hereto as Exhibit V is a list of the names and addresses of the subcontractors under the principal contract and a summary of the purposes and extent of the subcontracts. No subcontracts have been made on a cost-plus basis. Neither the Contractor nor any of its partners have had any subcontract from any of such subcontractors, or any other contract or arrangement for a direct or indirect participation in profits or earnings of any of such subcontractors. To the best of the Contractor's knowledge and belief no person associated with the Contractor has ever had a subcontract from any of such subcontractors or any other contract or arrangement for a direct or indirect participation in profits or earnings of any of the subcontractors.

(7) The following answer is based to a considerable extent upon the recollections of members of the firm of Sanderson & Porter:

November 2, 1939.—Mr. Harrison Smith, a partner of Sanderson & Porter, and Mr. W. E. Hamilton, Manager of the Construction Department, called on Colonel J. K. Clement, executive officer of the New York district of the Ordnance Department at his office in New York. Messrs. Smith and Hamilton asked Colonel Clement what provisions the Ordnance Department was making for loading high explosive shells in case of war. Colonel Clement stated that he could not answer this question and suggested that we get in touch with Major J. P. Harris of the Philadelphia Ordnance district, Wilmington, Delaware.

November 3, 1939.—Mr. Harrison Smith of Sanderson & Porter telephoned Major J. P. Harris in Wilmington and asked if he could call on him to discuss the Army's plans for building and operating shell loading plants. Major Harris told Mr. Smith over the telephone that shell loading plants came under Colonel Lucien D. Booth, who was in Washington, and suggested that we see Colonel Booth.

November 3, 1939.—Mr. R. L. Hamill, a partner of Sanderson & Porter, called on Col. L. D. Booth in Washington and told him of Mr. Smith's experience in shell loading during the last war and of Sanderson & Porter's qualifications for designing, building and operating a shell loading plant. Colonel Booth stated that the Ordnance Department did not then have any money which could be used for the construction and operation of shell loading plants but that he was glad to know of our experience and would keep us in mind when and if a need arose for our services.

November 9, 1939.—Letter sent to Colonel Booth from Sanderson & Porter.

November 14, 1939.—Mr. Harrison Smith and Mr. Hamill of Sanderson & Porter called on Colonel Booth in Washington and told him that there was a possibility that the French Government might want Sanderson & Porter to build and operate a shell loading plant and asked Colonel Booth whether, if we should obtain such a contract, it would be possible for us to obtain pertinent information on current government arsenal methods of shell loading from the Ordnance Department.

Colonel Booth told us that if we would furnish him with the specific information which we wanted and if we got the approval of the State Department, he would be glad to submit our request to the Ordnance Department and that his personal opinion was that the Department would be glad to furnish us pertinent information under these conditions. We then asked for permission to visit Picatinny Arsenal and Colonel Booth suggested that we write the Chief of Ordnance making this request.

November 22, 1939.—Having been authorized by General Wesson, Chief of Ordnance, as a result of a letter addressed to General Charles T. Harris, Jr., Mr. Smith and Mr. Hamill, partners of Sanderson & Porter, and Mr. Hamilton, Manager of the Construction Department, visited Picatinny Arsenal. They met Captain Regad, who turned them over to Lieutenant Rodenhauser, who arranged for them to report to Colonel Chavin. Colonel Chavin turned them over to Mr. Stank in charge of loading fuses and boosters. Mr. Stank took them through the fuse and booster departments. They were then introduced to Mr. Hanson in charge of shell loading, who turned them over to Mr. Gabe Smith, who took them

through the shell-loading plant. They were then taken to the bag-loading plant and Mr. Nelson, assistant to Mr. Stillwell, showed them through this plant.

May 24, 1940.—Messrs. Smith and Hamill of Sanderson & Porter called on Colonel Booth in Washington. He was absent but they talked with Maj. P. E. Hofstadter and Captain Schwartz. Major Hofstadter and Captain Schwartz reviewed our qualifications and advised that when and if the government decided to build shell-loading plants, we would be kept in mind. We were again told that no money was available for construction and operation of additional shell-loading plants.

June 6, 1940.—Mr. Hamill called on Colonel Booth in Washington and was told that the Ordnance Department still did not have any money available for the construction and operation of additional shell-loading plants.

June 27, 1940.—Mr. Harrison Smith of Sanderson & Porter and Mr. C. S. Strike, Vice President of F. H. McGraw & Co., called on Lieutenant Hunter and Commander Coombs of the Bureau of Yards and Docks to obtain specific information about a proposed naval base at Quonset Point, Rhode Island.

June 27, 1940.—Mr. Smith and Mr. Strike of F. H. McGraw & Co., called on Colonel Pitts and Major Thomas of the Quartermasters Department with reference to their Firms' qualifications as engineers and contractors. Shell loading plants were not discussed.

June 27, 1940.—Mr. Harrison Smith of Sanderson & Porter called on Colonel Booth and also talked with Captain Schwartz. Colonel Booth told Mr. Smith that it had been decided to give the Atlas Powder Company a contract for the operation of a shell-loading plant, but it was planned to build two or more additional plants and that Sanderson & Porter was being given serious consideration therefor.

June 28, 1940.—General Hartman's office in the Quartermasters Department telephoned Mr. Francis Blossom, a partner of Sanderson & Porter, and asked him to be in Washington, Monday, July 1st. Mr. Blossom arrived in Washington on that date. On July 3, 1940, the Quartermaster General appointed Mr. Blossom a member of the Construction Advisory Committee. From time to time, after Mr. Blossom became a member of the Construction Advisory Committee, other partners of Sanderson & Porter discussed with him generally the reported ordnance program, including shell loading, but Mr. Blossom took no part in any negotiations.

July 3, 1940.—Mr. Harrison Smith and Mr. Hamill called on Mr. Louis Johnson, Assistant Secretary of War, to explain our qualifications for designing, constructing and operating a shell loading plant. Mr. Johnson told them that he believed these plants would be built by such companies as du Pont, Atlas, and Hercules and that he would not take any part in the selection of engineers, contractors, and operators; but that he would not object to the employment of Sanderson & Porter for the design, construction and operation of a shell loading plant if the technical staff of the Ordnance Department, including Colonel Booth and General Harris, were convinced of our ability to carry out such a project.

July 3, 1940.—Mr. Harrison Smith and Mr. Hamill of Sanderson & Porter called on Colonel Booth, Major Hofstadter and Mr. Fred Hawkes in Washington, and were told that we should see Colonel F. H. Miles, Jr.

July 3, 1940.—Mr. Smith and Mr. Hamill talked with Colonel F. H. Miles, Jr. Major Hofstadter was present. They reviewed with Colonel Miles our qualifications for designing, constructing and operating a shell loading plant. Colonel Miles told them that he felt loading plants should be built and operated by the same concern and also felt that men with experience in shell loading during the last war were better qualified to undertake this task than powder manufacturers. Colonel Miles told them that he would talk with his superiors about Sanderson & Porter and asked them to return to his office in Washington on Monday, July 8th, with a list of personnel skilled in shell loading and available to Sanderson & Porter.

July 3, 1940.—Mr. Smith and Mr. Hamill called on Major Thomas in the Quartermasters Department to review with him the qualifications of Sanderson & Porter as engineers and contractors. No mention was made of shell loading plants.

July 8, 1940.—Mr. Hamill of Sanderson & Porter called on Mr. Louis Johnson, Assistant Secretary of War, and asked him if he would look over a letter dated July 6th from Sanderson & Porter, setting forth our qualifications for building and operating a shell loading plant. Mr. Johnson said that he did not want to see this letter as he would have nothing to do with picking out the parties to design and operate these plants. He told us that the selection of contractors in the first instance would have to come from Colonel F. H. Miles, Jr.

July 8, 1940.—Mr. Harrison Smith and Mr. Hamill of Sanderson & Porter and Mr. W. E. Canniff, who was to be in charge of the design and operation of a shell loading plant, if Sanderson & Porter should obtain a contract, called on Colonel F. H. Miles, Jr., in Washington. They showed Colonel Miles a letter, dated July 6, 1940, setting forth the names of men who had been associated with either Mr. Smith or Mr. Canniff in shell loading operations during the last World War and a number of whom had expressed their willingness to again engage in such activities with Messrs. Canniff and Smith. The men with whom Messrs. Smith and Canniff had talked knew the names and whereabouts of other men with whom they had worked under Messrs. Smith and Canniff, and knew they also were available. Colonel Miles studied the list presented, and remembered a number of the men as having been engaged in shell loading activities in plants under his supervision during the last World War, and said that he personally was satisfied with our qualifications for this work; he also said that we might expect to hear from him shortly and should be ready to meet him in Ohio to look over a proposed plant site.

July 8, 1940.—Mr. Smith of Sanderson & Porter and Mr. Canniff called on Major Thomas in the Quartermaster's Department to supplement information given him on July 3rd. Shell loading plants were not discussed.

July 12, 1940.—Mr. Harrison Smith of Sanderson & Porter telephoned Colonel Miles and was asked to be in Cincinnati at 7:45 A. M. Friday, July 19th, to visit a prospective site for a shell loading plant, and to have with him necessary utility and operating men. This appointment was subsequently cancelled by Colonel Miles.

July 16, 1940.—Mr. L. R. Shattuck and Mr. Hamill, partners of Sanderson & Porter, and Mr. Hamilton, Manager of the Construction Department, called on Colonel Lamphier in the Quartermaster's Department to discuss our general qualifications as engineers and contractors. Shell loading plants were not discussed.

July 16, 1940.—Messrs. Shattuck, Hamill and Hamilton asked to appear before the Construction Advisory Committee to the Quartermaster's Department to present our qualifications as engineers and contractors. Mr. Dresser, a member of the Committee, was out of town. Mr. Francis Blossom, a member of the Committee and a partner of Sanderson & Porter, retired from the room and Messrs. Shattuck, Hamill and Hamilton appeared before Mr. Harvey, the Chairman of the Committee to present our qualifications as engineers and contractors. Shell loading plants were not discussed.

July 16, 1940.—Messrs. Shattuck, Hamill and Hamilton called on Major Thomas in the Quartermaster's Department to be sure that we were listed both as engineers and as contractors. Shell loading plants were not discussed.

July 16, 1940.—Messrs. Shattuck, Hamill and Hamilton called on Commander Coombs, Lieutenant Hunter and Mr. Bates in the Bureau of Yards and Docks to present our qualifications as engineers and contractors. Shell loading plants were not discussed.

July 26, 1940.—Messrs. Shattuck and Hamill again called on Commander Coombs and Mr. Bates of the Bureau of Yards and Docks to supplement previous information given them.

July 26, 1940.—Messrs. Shattuck and Hamill called on Major Thomas in the Quartermaster's Department to supplement information previously given him. Shell loading plants were not discussed.

July 26, 1940.—Messrs. Shattuck and Hamill called on Colonel Miles, who was out of town. They saw Colonel Booth, who told them that shell loading plants were in charge of Colonel Miles and he could not give them any information thereon, except that he understood the Quartermaster's Department expected to nominate engineers and contractors on ordnance plants. Up until that time we had understood that the Ordnance Department would nominate not only the operators but also the engineers and contractors.

July 26, 1940.—Messrs. Hamill and Shattuck called on Mr. Harrison, in charge of construction for the Defense Advisory Committee, to present our qualifications as engineers and contractors. Mr. Harrison was out but they left certain information with his secretary.

July 29, 1940.—Mr. Smith and Mr. Hamill, of Sanderson & Porter, called on Major Thomas, of the Quartermaster's Department, and told him that up until a conversation with Colonel Booth a few days before they had understood that the Ordnance Department would nominate the engineers and contractors, as well as the operators for all shell-loading plants, and, therefore, had not talked with the Quartermaster's Department about our qualifications to design and build

shell-loading plants, but that they now understood the Quartermaster's Department was to nominate the engineers and contractors for such plants and therefore wanted to have an opportunity to present our qualifications for designing and building shell-loading plants to the proper persons in the Quartermaster's Department. Major Thomas stated that they should appear before the Construction Advisory Committee to present such qualifications.

July 29, 1940.—Mr. Smith and Mr. Hamill appeared before the Construction Advisory Committee and saw Mr. Harvey, Chairman, and Mr. Dresser. Mr. Blossom was not present. They repeated what had been told Major Thomas and then presented in detail the particular qualifications of Sanderson & Porter for designing and building a shell-loading plant.

July 29, 1940.—Mr. Harrison Smith saw Colonel Miles, of the Ordnance Department, who said that he was going to talk with General Hartman of the Quartermaster's Department about our qualifications to design and build a shell-loading plant and that we should hear further from him in a few days.

July 29, 1940.—Mr. Hamill saw Mr. Harrison in charge of construction for the Defense Advisory Committee and was told that Mr. Harrison's function was confined to advice and coordination of construction activities and he, therefore, would not be in a position to nominate engineers and contractors.

August 5, 1940.—Mr. Shattuck and Mr. Hamill, of Sanderson & Porter, appeared before a committee of the Bureau of Yards and Docks, consisting of Captain Reade, Captain Wade, Mr. May, Mr. Bates, and possibly others, to present our qualifications for the design and construction of a power plant on the Great Lakes.

August 5, 1940.—Mr. Shattuck and Mr. Hamill called on Colonel Miles and Colonel Booth, of the Ordnance Department, and were told that Colonel Miles had talked with General Hartman, of the Quartermaster's Department, and that General Hartman had told Colonel Miles he would approve the request of Colonel Miles to have Sanderson & Porter design and construct, as well as operate, a shell-loading plant for which they had been selected as operators. Colonel Miles stated that he hoped to be able to notify us in a few days to meet him some place in Illinois to look over a proposed site for a shell-loading plant.

August 9, 1940.—Mr. L. R. Shattuck, of Sanderson & Porter, called on Lt. E. W. Southworth at the naval air station, Quonset Point, Rhode Island, with reference to the possibility of Sanderson & Porter handling the design and construction of all utilities at Quonset Point.

August 13, 1940.—Mr. Shattuck again called on Lieutenant Southworth at Quonset Point.

August 13, 1940.—Mr. Smith and Mr. Hamill called on Colonel Booth, Colonel Miles, and Major Hall, of the Ordnance Department. Colonel Miles said that the Ordnance Department would be ready to negotiate with Sanderson & Porter to design, build, and operate a shell-loading plant as soon as money was made available. Mr. Smith and Mr. Hamill said that the British Purchasing Commission had approached Sanderson & Porter about building and operating a shell-loading plant for the British. They asked if the Ordnance Department had any objection to our talking to the British about this. They were told that Colonel Booth and Colonel Miles did not object to our negotiating with the British provided we did not impair our ability to do a good job for the United States government and provided we did not close any contract with the British before taking it up with the Ordnance Department.

August 13, 1940.—Mr. Smith and Mr. Hamill called on Mr. Arthur Palmer, Assistant to Secretary of War Stimson, to advise him of our negotiation with the Ordnance Department to build and operate a shell-loading plant and also our subsequent approach by the British Purchasing Commission. Mr. Palmer agreed that we could continue to talk with the British, but should submit any proposed contracts with the British to the Army before closing.

August 21, 1940.—Mr. Smith and Mr. Hamill, of Sanderson & Porter, talked with Mr. Hawkes, of the Ordnance Department, with reference to the lay-out of a shell-loading plant.

August 21, 1940.—Mr. Smith and Mr. Hamill talked with Colonel Miles and met Major Holmes and Mr. Weisenberg, of the Ordnance Department. Colonel Miles repeated that he did not object to our negotiating with the British to build a shell-loading plant but doubted our ability to obtain competent operating personnel for a plant for the British as well as for our own government.

September 5, 1940.—Mr. Smith, Mr. Hamill, and Mr. Hamilton, of Sanderson & Porter, and Mr. Canniff and Mr. Froesch, who were to be with Sanderson & Porter in the design and construction of the proposed shell-loading plant, went

to Wilmington, Illinois, to look over the proposed plant site. They were accompanied by Colonel Miles, Colonel Holmes, Major Hofstadter, Major Dietrich, and Mr. Weisenberg, of the Ordnance Department.

September 12, 1940.—Mr. Harrison Smith called on Colonel Miles, who introduced him to Lieutenant Colonel L. H. Campbell, Jr., who in turn made an appointment for representatives of Sanderson & Porter to meet with representatives of the Ordnance Department at 9:00 A. M. September 13, 1940, for the purpose of negotiating a contract to design, construct, and operate a shell-loading plant at Wilmington, Illinois.

September 13, 1940.—Mr. Harrison Smith and Mr. Hamill, of Sanderson & Porter, and Mr. Stoddard Stevens, as counsel for Sanderson & Porter, met in the Ordnance Department with Lieutenant Colonel Campbell, Major White, Colonel Hofstadter, Captain Duffy, and Captain Hall, of the Ordnance Department; Major Jones and Colonel Watson, of the Quartermaster's Department; and Mr. Harrison, in charge of construction for the National Defense Advisory Commission. At this meeting Sanderson & Porter were given, and signed, a letter of intent dated September 12th. Negotiations proceeded until September 19, 1940, when a contract was signed. From that date on, representatives of Sanderson & Porter have had numerous conversations and conferences with many representatives of the Ordnance Department and Quartermaster's Department with reference to the work being performed in accordance with the terms of the contract.

(8) No representative of Sanderson & Porter discussed the contract or the possibility of a contract with anyone not then or now associated with the United States government and not carried on the contractor's pay roll as a salaried employee prior to January 1, 1941, except with counsel and possibly mentioning it to friends having no contacts with the government.

(9) No fees or payments or commissions of any kind or nature whatsoever were paid directly or indirectly by or on behalf of Sanderson & Porter for obtaining information or performing any services of any kind which related to the contract in particular, or to the Defense Program in general.

(10) Neither Sanderson & Porter or anyone associated with Sanderson & Porter shares in the profits or earnings of anyone holding another cost-plus-fixed-fee contract with the government.

(11) No one offered services to Sanderson & Porter as an intermediary or otherwise to assist in obtaining or performing the contract.

(12) Sanderson & Porter began construction at Elwood late in November 1940, our work involving many buildings widely scattered over a large area. The only job where prices might be considered to be at all comparable is one involving the design and construction of a steam power plant addition near Wheeling, West Virginia, started in May 1940, and to be completed early in 1942. This installation was made in an existing building and involved demolition and reconstruction in a limited area.

Because of the widely different character of these two projects, items of equipment used are not comparable. We do not find any prices paid by the government for materials, even somewhat similar, greater than those paid on the Wheeling job.

(13) There are no specifications in the contract as to materials or equipment which rendered it necessary for Sanderson & Porter to buy materials or equipment of a different kind or character than we would ordinarily have used on such a project.

(14) Sanderson & Porter does not know of any improper action by anyone connected in any way with the project involved in the contract.

Yours very truly,

SANDERSON & PORTER,
By R. S. HAMILL,
Member of Firm.

EXHIBIT I

Sanderson & Porter comparative balance sheets as of Dec. 31

	1936	1937	1938	1939	1940
ASSETS					
Cash in banks and on hand	\$416,394.44	\$422,584.33	\$320,465.74	\$279,173.02	\$316,370.73
Accounts and loans receivable.....	99,499.24	143,234.12	65,664.09	56,923.18	167,689.45
Work in process, at predetermined costs plus out of pocket expenses.....	83,040.33	23,840.04	32,547.54	57,583.25	15,252.70
Other assets.....	8,043.22	7,235.58	6,796.96	6,699.87	6,800.79
Total.....	606,977.23	596,894.07	425,474.33	400,379.32	506,113.67
Elwood ordnance plant:					
Cash in banks.....					\$764,247.73
Due from U. S. Government.....					548,886.08
Total.....	606,977.23	596,894.07	425,474.33	400,379.32	1,313,133.81
LIABILITIES					
Accounts payable.....	51,537.91	25,893.41	10,905.51	38,937.27	22,582.30
Credit balances of partners' accounts.....	555,439.32	571,000.66	414,568.82	361,442.05	483,531.37
Elwood ordnance plant:					
U. S. Government deposit.....	606,977.23	596,894.07	425,474.33	400,379.32	506,113.67
Accounts payable.....					1,000,000.00
Total.....	606,977.23	596,894.07	425,474.33	400,379.32	313,133.81
					1,313,133.81
Total.....	606,977.23	596,894.07	425,474.33	400,379.32	1,819,247.48

EXHIBIT II

John E. Bierwirth,
Vice President

THE NEW YORK TRUST COMPANY,
New York, July 25, 1940.

MR. ROBERT L. HAMILL,
Sanderson & Porter, 52 William Street,
New York, N. Y.

DEAR MR. HAMILL: Referring to our conversation yesterday regarding the work which you hope to undertake for the Navy and War Department on a cost plus, fixed fee basis, we are pleased to confirm that we shall be very glad to place credit facilities at the disposal of your firm.

Without knowing the size of the contract that you may be awarded or your possible need for credit, we believe that we would have no objection to extending your firm as much as \$2,000,000 of credit if contracts awarded you justify any such requirements, all other factors remaining as we understand them at present.

With best wishes,
Yours sincerely,

JOHN E. BIERWIRTH,
Vice President.

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EXHIBIT III

LIST OF EQUIPMENT

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 23, 1941

Construction equipment, schedule A.....	\$149,674.03
Office equipment, schedule B.....	68,374.67
Engineering equipment, schedule C.....	19,569.63
Locomotives, railroad equipment, schedule D.....	44,032.16
Permanent equipment, schedule E.....	123,680.72
Total equipment.....	405,331.21

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 23, 1941—Continued

SCHEDULE A. CONSTRUCTION EQUIPMENT, PERIOD ENDED APR. 23, 1941

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
34	201	Winston Chevrolet Co.	402 N. Chicago St.	Joliet, Ill.	6 Master Deluxe Sports Sedans.	\$4,135.14
34-83	231-276-476	do.	do.	do.	8 34-ton Pick-ups.	4,829.60
34	201	do.	Henderson Ave.	do.	1 Special Deluxe Station Wagon.	4,824.95
62	323-255	Barrett Hardware Co.	do.	do.	1 #121 Platform Scale.	23.72
62	323-255	do.	do.	do.	1 Hand Truck (Lansing 54")	7.35
97	410	Chicago Pump Co.	2336 Wolfrom St.	Chicago, Ill.	1 Motor-driven Pump	191.10
219-101	697-379	Joliet Motor Sales.	101 E. Jefferson St.	Joliet, Ill.	6 Ford Station Wagons	4,772.34
178	406	Great Lakes Supply Co.	9342 Ewing St.	Chicago, Ill.	2 Int'l Harvester Tractors	11,248.00
178	406	do.	do.	do.	2 Bulldozers (Bucyrus-Erie)	3,610.00
181	317	Public Service Co. of Northern Illinois.	22 West Cass St.	Joliet, Ill.	1 #441M—Meyers Pump Jack.	50.00
231	545	H. B. Faith Equipment Co.	2724 Auburn.	Rockford, Ill.	3 Push Plates for Allis-Chalmers' Tractor.	1,005.00
234	408	Jas. G. Heggie Manufacturing Co.	1102 Collins St.	Joliet, Ill.	1 Steel Stack (22" x 65')	215.00
246	466	O. T. Christerson Co.	3300 S. Wabash.	Chicago, Ill.	36 #156 Insley Hand Carls.	1,521.90
262	438	Lookout Boiler & Manufacturing Co.	do.	Chattanooga, Tenn.	1 700 Heggie Simplex Boiler.	816.54
289	592	Harnishfeger Corp.	4400 N. National Ave.	Milwaukee, Wis.	1 Clamshell Cater-Diesel Engine & Bucket.	12,020.68
302	690	Chicago Pump Co.	2336 Wolfrom St.	Chicago, Ill.	2 Midget Gas Engine Pumps.	196.00
321	798	Mall Tool Co.	7740 S. Chicago Ave.	do.	4 Mail Electric Vibrator Units.	324.20
391	922	Barrett Hardware Co.	Henderson Ave.	Joliet, Ill.	1 Skisaw Model S7.	105.84
395	803	Trackman Auto Supply Co.	438 N. Chicago St.	do.	1 Portable Air Compressor—Gas Engine.	285.23
408	404	Barrett Hardware Co.	Henderson Ave.	do.	1 #3 Thor Electric Saw & Blades.	150.02
408	404	do.	do.	do.	2 Galvanized Stock Tanks.	27.44
411	875	H. Channon Co.	201 E. No. Water St.	Chicago, Ill.	1 8" P & D Electric Bench Grinder.	56.64
437	691	Homelite Corp.	do.	Port Chester, N. Y.	2 2" Self-priming Pumps.	405.72
446	641-667	Barron Motor Truck Sales.	211 N. Joliet St.	Joliet, Ill.	6 2-ton Int'l Trucks.	5,991.12
446	641-667	do.	do.	do.	3 5-ton Int'l Trucks.	9,790.95
467	861	R. G. Richards.	do.	Symerton, Ill.	1 Water Heater.	160.17
490	501	Barrett-Christie Hardware Co.	108 N. Clinton St.	Chicago, Ill.	1 #250 Pipe Cutter—Tote to 2 1/2" to 6.	78.40
513	1030	H. Channon Co.	201 E. No. Water St.	do.	2 #1921 Kohler Generating Plants.	1,098.20
514	988	O. T. Christerson Co.	3300 S. Wabash.	do.	15 #156 Con. reie Buggies.	634.12
521	935	Barrett Hardware Co.	Henderson Ave.	Joliet, Ill.	2 #156 Galvanized Stock Tank.	37.22
525	988	O. T. Christerson Co.	3300 S. Wabash Ave.	Chicago, Ill.	1 #92 Insley Hand Carls.	887.77
525	988	do.	do.	do.	2 #156 Insley Hand Carls.	218.50
625-527	931	General Electric Co.	350 N. Ogden Ave.	do.	2 Portable Pumps 7500 G. P. H.	56.47
532	1003	Well Pump Co.	215 N. Superior St.	do.	1 S-H. P. Motor and Pulley.	74.87
550	1111	Mall Tool Co.	7740 S. Chicago Ave.	do.	1 S-H. Pres ure Pumps.	108.78
561	980	Western Contractors Supply Co.	3145 W. Lake St.	do.	1 #91-9" Mail Saw and Blades.	117.60
561	980	do.	do.	do.	2 Aerol Heaters.	117.60

568	Arrow Construction Equipment Co.	2020 Walnut St.	do	2 Conc. Mast. Towers.	1,363.25
568	do	do	do	2 Jaeger Hoists.	1,425.00
598	Western Contractors Supply Co.	3145 W. Lake St.	do	2 #25 Aerol Burners.	186.20
617	Patton Tractor & Equipment Co.	1056 N. Kolmar	do	1 #12 Grader-Caterpillar-Diesel	6,025.80
672	Ferrell Manufacturing Co.	804 Cass St.	Joliet, Ill.	2 Steel Water Tanks 48" x 72"	100.00
693	Revere Electric Company	757 W. Jackson	Chicago, Ill.	2 5/16" Drills—Black & Decker #350	74.97
702	O. T. Christerson Co.	3000 W. Wabash Ave.	do	6 2" German-Rupp Bantam Pumps 7500 G. P. H.	672.60
715	Barrett Hardware Co.	Henderson Ave.	Joliet, Ill.	1 #225 2-H. P. Motor	45.71
723	O. T. Christerson Co.	3000 S. Wabash Ave.	Chicago, Ill.	6 Concrete Vibrators	1,058.40
723	do	do	do	6 Demolition Tools	1,451.18
750	Insley Manufacturing Co.	801 N. Olney Ave.	Indianapolis, Ind.	35 #150 Hand Carts (Insley)	1,316.70
759	Arrow Construction Equipment Co.	2020 W. Walnut St.	Chicago, Ill.	2 #46 Water Heaters.	113.70
773	Western Contractors Supply Co.	3145 W. Lake St.	do	4 Paving Breakers.	875.53
789	U. S. Electrical Motors, Inc.	200 E. Main St.	do	1 1/2 H. P. Motor	65.12
793	H. Channon Co.	201 E. No. Water St.	Los Angeles, Calif.	16 #3 Back-Fill Tampers-Simplat	1,489.60
800	Standard Equipment & Supply Co.	534 Michigan Ave.	Hammond, Ind.	1 Band Saw Setting Machine	22.54
824	C. N. Frame	5417 Blackstone Ave.	Chicago, Ill.	2 WB-30 Pioneer Generating Plants	733.04
889	O. T. Christerson	3000 S. Wabash Ave.	do	6 2" German-Rupp Pumps	712.50
909	American Saw Mill Co.	91 Main St.	Hackettstown, N. J.	1 3 H. P. Master Motor	88.29
912	Chicago Pneumatic Tool Co.	6 East 44th St.	New York, N. Y.	3 T. B. Air Compressors 12" x 11"	10,146.99
932	Insley Mfg. Corp.	801 N. Olney St.	Indianapolis, Ind.	43 #150 Hand Carts (Insley)	1,617.66
978	H. B. Faith Equipment Co.	2724 Auburn	Rockford, Ill.	1 Scraper Casting for #400	294.00
981	Harnishleger Corp.	4000 W. National Ave.	Milwaukee, Wis.	4S-157 Arc Welders	2,899.00
985	Kochring Co.	30 N. Concordia Ave.	do	1 #148 Concrete Mixer	1,576.38
1007	Great Lakes Supply Corp.	921 Ewing Ave.	Chicago, Ill.	4 Electric Generator Sets	808.50
1010	American Saw Mill Co.	91 Main St.	Hackettstown, N. J.	1 Radial Saw—Monarch Jr.	352.80
1022	R. S. Hart	1950 Grand Central Terminal	New York, N. Y.	1 #528 Moisture Meter	80.77
1033	All States Roofing Equip. Co.	2107 W. Lake St.	Chicago, Ill.	1 Tar & Asphalt Heater	135.00
1091	Barrett Hardware Co.	Henderson Ave.	Joliet, Ill.	50 #68 Concrete Carts	1,999.20
1108	Western Contractor Supply Co.	3145 W. Lake St.	Chicago, Ill.	6 #63 Concrete Surfaces (Ingersoll-Rand)	591.60
1116	Alis-Chalmers Mfg. Co.	Henderson Ave.	Milwaukee, Wis.	1 #10 K.V. A Transformer	96.70
1213	Barrett Hardware Co.	do	Joliet, Ill.	1 2 H. P. Motor	46.64
1213	do	do	do	1 H. P. Motor	34.32
1213	do	do	do	1 5 H. P. Motor	58.96
1237	Western Contractors Supply Co.	3145 W. Lake St.	Chicago, Ill.	20 20-Ton Hydraulic Jacks	744.80
1237	do	do	do	4 Pr. Johnson Frogs	223.44
1241	Barrett Hardware Co.	Henderson Ave.	Joliet, Ill.	1 #406 B Miller Falls Portable Grinder	98.47
1247	Arrow Construction Equipment Co.	2020 W. Walnut St.	Chicago, Ill.	5 #28N Concrete Heaters	392.00
1251	Chicago Pump Co.	2336 Wolfrom St.	do	1 Dv2 Pump	249.90
1265	Standard Equipment & Supply Co.	534 Michigan St.	Hammond, Ind.	2 #61 1/2 Buda Push Carts	115.64

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 23, 1941—Continued

SCHEDULE A. CONSTRUCTION EQUIPMENT, PERIOD ENDED APR. 23, 1941—Continued

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
1344	1765	Farrell Mfg. Co.	804 E. Cass St.	Joliet, Ill.	1 Storage Tank 64" x 72"	\$66.97
1381	2126	Olsen Tool & Equipment Co.	9 S. Clinton St.	Chicago, Ill.	1 5 H. P. Motor for Circular Saw	240.10
1413	2095	Arrow Construction & Equipment Co.	2020 W. Walnut St.	do.	3 2" Pumping Outfits with Gas Engine, 8,000, G. P. H.	454.41
1420	2115	Duff-Norton Mfg. Co.	2709 Preble Ave.	Pittsburgh, Pa.	4 #B2226 Duff-Norton Jacks	325.14
1439	1558-1977	Humboldt Mfg. Co.	2014 N. Whipple St.	Chicago, Ill.	1 #479-888 E. Humboldt Balance Weights	236.05
1487	2006	American Pump Inc.	59 E. Van Buren	do.	2 #AB-38 Pumps	279.50
1517	2305	Mail Tool Co.	7740 S. Chicago Ave.	do.	1 #100 Mail Saw & Blades	136.76
1579	2399	Arrow Construction Equipment Co.	2020 W. Walnut St.	do.	6 2" Gas Pumps 8,000 G. P. H.	908.82
1605	2185	Western Contractors Supply Co.	3145 W. Lake St.	do.	6 #IV Vibrators (Ingersoll-Rand)	1,140.00
1685	2083	do.	do.	do.	2 8' Concrete Buckets	131.32
1707	1152	Winston Chevrolet Co.	402 N. Chicago St.	Joliet, Ill.	6 Sport Sedans	4,474.38
1707	2110	do.	do.	do.	10 DeLuxe Sedans	6,360.60
1732	2006	Associated Research Inc.	431 S. Dearborn St.	Chicago, Ill.	1 #251 Vibro-ground	114.34
1737	1239	H. Channon Co.	201 E. No. Water St.	do.	2 #6½ Buda Push Carts	115.64
1746	1655	Ingersoll-Rand Co.	11 Broadway	New York, N. Y.	1 Air Compressor	249.64
1762	2233	Standard Equipment & Supply Co.	534 Michigan St.	Hammond, Ind.	6 # 28N Concrete Heaters	435.12
1762	2233	do.	do.	do.	2 1/4" Heavy Duty Drills	108.63
1780	2419	Kulp-Waco Corporation	100 Lakeview Ave.	Buffalo, N. Y.	1 Crimping Machine	58.18
1780	2419	do.	do.	do.	1 Universal Chuck	54.14
1794	1475	Clearwater Tank Co.	810 E. English St.	Danville, Ill.	4 RE25210 Water Tanks	47.87
1928	2863	Barrett-Christie Co.	108 N. Clinton St.	Chicago, Ill.	6 #3 Unique Heaters	396.90
1943	1279	Great Lakes Supply Co.	9342 Ewing Ave.	do.	3 #6 Rex Mortar Mixers—with Gas Engines	1,250.97
1954	2480	Western Contractors Supply Co.	3145 W. Lake St.	do.	1 #A45 Jack Hammer	136.39
1966	2125	American Saw Mill Co.	91 Main St.	Hackettstown, N. J.	2 5 H. P. Motors	227.36
1967	2860	Arrow Construction Equipment Co.	2020 W. Walnut St.	Chicago, Ill.	3 2" Pumps, 8,000 gal. P. H.	460.35
1971	2566	Chicago Construction Equipment Co.	8039 S. Halsted St.	do.	4 #29W Concrete Heaters	303.81
1973	1766	Farrell Mfg. Co.	804 E. Cass St.	Joliet, Ill.	1 64" x 72" Storage Tank	66.63
1981	2419	Kulp-Waco Corporation	100 Lakeview Ave.	Buffalo, N. Y.	2 #15 Buffalo Drills	197.37
2015	1077	Elkhart Brass Mfg. Co.	1302 W. Beardsley Ave.	Elkhart, Ind.	1 20 Gal. Fire Extinguisher	73.50
2024	2580	Howe Scale Co.	3145 W. Lake St.	Rutland, Vt.	1 #28 Howe Scale	21.28
2123	2568	Western Contractors Supply Co.	3145 W. Lake St.	Chicago, Ill.	4 #300 Chipping Hammers	240.00
2123	2087	do.	do.	do.	10 #17 Concrete Heaters	705.60
2160	2859	O. T. Christerson Co.	3900 S. Wabash	do.	9 2" Gorman-Rupp Gas Pumps	1,094.40
2207	1110-1152	Winston Chevrolet Co.	402 N. Chicago St.	Joliet, Ill.	Refund of Discount to Chev. Co. Inv. #1707	364.86
2216	2862	Hauk Mfg. Co.	126 10th St.	Brooklyn, N. Y.	6 #38 Concrete Heater Outfits	480.00
2248	2895	H. Channon Co.	201 E. No. Water St.	Chicago Ill.	1 8" Bench Grinder	60.93

2264	2668	Standard Equipment & Supply Co.	534 Michigan St.	Hammond, Ind.	2 #0 Skilsaws	280.28
2291	3193	Chicago Pump Co.	2336 Wolfrom St.	Chicago, Ill.	1 D2½ Pump—200 Gal. P. H.	147.00
2322	2902	Standard Equipment & Supply Co.	534 Michigan	Hammond, Ind.	1 ½" Drill	36.21
2357	2839	O. Iber Co.	626 W. Randolph	Chicago, Ill.	2 #0 Skilsaws	292.04
2488	3203	R. Hammes	219 S. Lafayette Blvd.	South Bend, Ind.	11 Ford Pump Trucks (Purchased on Rental Basis)	6,063.57
2463	3007	Chicago Construction Equipment Co.	8039 S. Halsted	Chicago, Ill.	6 #30C Carter Diaphragm Pumps	1,222.45
2427	3059	General Construction Equipment Co.	5040 S. Halsted	do	1 5 H. P. Table Saw on Skids	326.80
2462	2731	Bannon Motor Truck	211 N. Joliet St.	Joliet, Ill.	1 D30—2-Ton International Truck	998.52
2498	3119	Standard Equipment & Supply Co.	534 Michigan	Hammond, Ind.	2½" Jr. B. & D. Drill	55.44
2498	3119	do	do	do	2 ¾" B. & D. Drill with Chuck	106.06
2508	2517	Brunner & Lay	727 S. Jefferson	Chicago, Ill.	2 Driving Heads for ¾" Ground Rods	14.80
2508	2517	do	do	do	2 Driving Heads for ¾" Ground Rods	14.90
2600	3200	Chicago Construction Equipment Co.	8039 S. Halsted	do	3 #6 Rex Mortar Mixers	1,091.25
2609	3403	L. G. Evans & Co.	737 Western	do	1 J5 Carter Electric Door Plane	137.20
2609	3403	do	do	do	1 Door Lock Mortiser	137.20
2610	2669	Farrell Mfg. Co.	804 Cass St.	Joliet, Ill.	1 750 Gal. Galvanized Water Tank 48" x 96"	155.00
2618	2861	Hauk Mfg. Co.	126 Tenth St.	Brooklyn, N. Y.	6 #361 Hauk Concrete Heater Outfits	480.00
2616	2217	Harnsberger Corp.	4400 W. National Ave.	Milwaukee, Wis.	2 200-Amp. Hanson Arc Welders	1,719.00
2660	3174	H. Channon Co.	201 E. No. Water St.	Chicago, Ill.	2 ¾-Ton "C" Yale Pull & Lift Hoist	487.01
2660	3174	do	do	do	1 1½-Ton of Same	487.01
2660	3174	do	do	do	1 1½-Ton B. B. Type Chain Hoist	487.01
2660	3174	do	do	do	2 1-Ton & 1 3-Ton B. S. Same	570.35
2661	2734	do	do	do	6 Electric Hammers	12.16
2807	3405	Lyons Bros. Lumber Co.	1003 Washington St.	Joliet, Ill.	16 Pieces 1" x 4" x 12' hard Maple	123.48
2845	3216	Western Contractors Supply Co.	3145 W. Lake St.	Chicago, Ill.	2 #46 Acroll Coke Burning Water Heaters	66.04
2880	3377	Clearwater Tank Co.	810 E. English	Danville, Ill.	6 #5210 Galvanized Steel Tanks	830.45
2883	1451	DeWalt Products Corp.	2020 Walnut St.	Lancaster, Pa.	1 DeWalt Saw & Blades	1,435.00
2992	3196	Arrow Construction Equipment Co.	do	Chicago, Ill.	2 Concrete Mast Towers	1,500.00
2992	3196	do	do	do	2 Jaeger Hoists	723.60
3116	3007	O. T. Christerson Co.	3900 S. Wabash	do	6 Gorman-Rupp 2" Pumps 7,500 Gal. P. H.	274.40
3188	3441	L. G. Evans Co.	737 Western	do	2 Jr. Carter Door Planes	121.52
3247	3646	Western Contractors Supply Co.	3145 W. Lake St.	do	4 ¾-Ton Coffing Hoists	88.20
3247	3646	do	do	do	2 1½-Ton Hoists	764.40
3289	3758	Mall Tool Co.	7740 S. Chicago Ave.	do	6 #3016 Mall Electric Vibrators	128.60
2806	3077	Curtis Mfg. Co.	St. Louis & Kierlin	St. Louis, Mo.	1 Asme Outfit with Motor	544.50
3333	3375	H. Channon Co.	201 E. No. Water St.	Chicago, Ill.	3 #219 Pneumatic Vibrators	149,674.03
Construction Equipment, total.						

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 23, 1941—Continued

SCHEDULE B. OFFICE EQUIPMENT, PERIOD ENDED APR. 23, 1941

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
2	209	C. A. Braun	164 Williams St.	New York, N. Y.	25 W. Flat Top Desks	\$837.50
2	209	do	do	do	15 W. Typewriter Desks	562.50
3	213	do	do	do	2 Swivel Chairs	22.96
3	213	do	do	do	2 Steno. Chairs	24.30
3	229	do	do	do	2 Chairs	19.53
9	226	Nawman & Erbe Mfg. Co.	1099 Joy St.	Rochester, N. Y.	15 Steel Filing Cabinets (Legal Size)	737.70
9	226	do	do	do	15 Steel Filing Cabinets (Letter Size)	643.20
18	252	The Book Shop	72 N. Chicago St.	Joliet, Ill.	1 #100 Mimeograph	515.97
18	252	do	do	do	1 Mimeoscope with guides	36.62
29	254	Underwood Elliott Fisher	13th and F Sts.	Washington, D. C.	13 Underwood Typewriters "Master"	910.00
46	407	Sputzer Office Furniture Co.	167 W. Lake St.	Chicago, Ill.	5 Walnut Costumers	12.50
48	265	The Book Shop	72 N. Chicago St.	Joliet, Ill.	1 Bates Numbering Machine	12.35
48	265	do	do	do	1 Bates Numbering Machine (Jr.)	6.86
50	212-232	Fitzgerald Furniture Co.	355 E. Cass St.	do	27 Swivel Arm Chairs	297.81
50	232	do	do	do	25 Wal. Arm Chairs	196.75
50	232	do	do	do	12 Steno. (Wal.) Chairs	238.20
50	251	do	do	do	12 Combination Walnut Tables	379.80
50	290	do	do	do	12 Flat Top Desks (34 x 60)	425.40
50	290	do	do	do	12 Steno. Walnut Desks (32 x 55)	83.55
50	225	do	do	do	1 Broadloom Rug (13'6" x 14) & Pad	37.22
61	289	All Steel Equipment Co.	164 Williams St.	Aurora, Ill.	1 966 Key Cabinet—Steel	68.00
63	398	C. A. Braun	do	New York, N. Y.	1 5D Letter Size File	76.25
63	398	do	do	do	1 5D Legal Size File	6.75
63	398	do	do	do	1 1D 3 x 5 Card File	8.80
63	398	do	do	do	1 1D 5 x 8 Card File	217.30
70	354	Int'l. Business Machine Corp.	233 W. Madison St.	Chicago, Ill.	2 Steel Blueprint Sections and Bases	163.20
81	364	All Steel Equipment Co.	do	Aurora, Ill.	48 #207 Card Racks	123.00
82	422	C. A. Braun	164 Williams St.	New York, N. Y.	6 Storage Cabinets #347 Double Doors (36 x 24 x 78)	275.00
82	422	do	do	do	25 #176 1/2 Swivel Arm Chairs	218.75
92	428-429	Addressograph-Multigraph Corp.	do	Cleveland, Ohio	25 #176 Walnut Arm Chairs	703.17
110	412	Amberg File & Index Company	do	Kankakee, Ill.	1 #6251 Graphotype—Complete	23.20
110	412	do	do	do	1 Legal Sorter and Stand	3.80
111	366	Addressograph-Multigraph Corp.	do	Cleveland, Ohio	1 #30 Cabinet-Complete-Addressograph	54.10
130	469	Boston Store	do	Joliet, Ill.	2 Rugs (9' x 13'6") (12' x 13'6")	119.50
158	269	Acme Visible Records	122 So. Michigan	Chicago, Ill.	1 #4023 Cabinet-Complete with 15 Telephone Frames	178.43
161	367	Burroughs Adding Machine Co.	208 W. Washington	do	4 Burroughs Adding Machines—Style 90895	684.00

166	318	Monroe Calculating Machine Co.	555 Mitchell St.	Orange, N. J.	1 Monroe Calculating Machine.	297.50
168	407	Spitzer Office Furn. Co.	167 W. Lake St.	Chicago, Ill.	20 Walnut Costumers.	50.00
181	381	Underwood Elliott Fisher Co.	13th and F Sts.	Washington, D. C.	3 26" Underwood Typewriters	310.50
182	381	do.	do.	do.	1 18" Underwood Typewriter.	87.50
183	381	do.	do.	do.	1 14" Underwood Typewriter.	77.50
185	381	do.	do.	do.	9 14" Underwood Typewriters.	630.00
186	613	Barrett Hardware Co.	Henderson St.	Joliet, Ill.	1 #200 Arrin Electric Heater.	5.26
199	651	Finger Print Pub. Co.	19 0 Sunnyside Ave.	Chicago, Ill.	6 Muskegon Finger Print Card Holders.	24.08
206	557	Globe Furn. & Sta. Co.	168 W. Monroe	do.	1 Walnut Comptometer Desk.	36.75
212	655	Wolfs Camera Exchange.	410 Market St.	Pittsburgh, Pa.	1 Photorecord Camera.	295.00
242	642	Barrett Hardware Co.	Henderson St.	Joliet, Ill.	2 Sets Steel Figures (1 #1550 & 1 #1500 1/2") 1550—\$2.23 Figures 1500—\$6.65 Letters	8.88
254	430	Royal Typewriter Co.	839 17th NW	Washington, D. C.	19 Royal Typewriters (Model K. M. M.)	1,330.00
263	493	do.	do.	do.	7 Royal Typewriters (Model K. M. M.)	490.00
278-265	710-711	Addressograph Sales Co.	211 Elks Bldg	Joliet, Ill.	1 Addressograph—Complete	745.75
280	646	Horder's, Inc.	231 S. Jefferson St.	Chicago, Ill.	1 #2572 Walnut Work Table.	14.78
289	687	All Steel Equipment Co.	Griffith Ave.	Aurora, Ill.	8 #3457 Steel Cabinets (Sta. Storage)	164.00
293	351-392-393	Burroughs Adding Mach. Co.	208 W. Washington St.	Chicago, Ill.	1 Burroughs Payroll Machine.	2,436.30
293	527	Remington Rand Co.	465 Washington St.	Buffalo, N. Y.	4 Line-A-Times 18"	74.08
293	527	do.	do.	do.	24 Line-A-Times 12"	353.28
296	665	Underwood Elliott Fisher.	13th and F Sts.	Washington, D. C.	5 11" Underwood Typewriters	390.00
298	531	Nulman-Erbe Mfg. Co.	164 W. Monroe St.	Chicago, Ill.	17 Filing Cases (17 Y&E 5 Drawer, Letter Size)	742.72
316	823	Horder's, Inc.	231 S. Jefferson St.	do.	27 Lamps.	225.12
323	273-274	Royal Typewriter Co.	839 17th NW	Washington, D. C.	2 Royal Typewriters (Model K. M. M.)	140.00
324	731	Underwood Elliott Fisher Co.	13th and F Sts.	Joliet, Ill.	4 11" Underwood Typewriters	280.00
333	468	Fitzgerald Furniture Co.	355 E. Cass	do.	4 Venetian Blinds	48.92
238		Purchased by S. & P. New York Office.			5 Desks.	121.00
366	839	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	1 Round Carpet (8 x 10 6/4)	43.02
399	790	Globe Furniture & Sta. Co.	168 W. Monroe St.	Chicago, Ill.	1 Desk (Walnut, Comptometer)	37.50
416	415	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	6 Desks (Walnut, Secretarial)	246.48
430	350	Whitehead & Hoar Co.	272 Sussex Ave.	Newark, N. J.	The Closing Tools for Nonreusable Badgers	209.88
433	712	Addressograph Sales Co.	211 Elks Bldg	Joliet, Ill.	18 Steel Filing Drawers (Complete with 1 Shelf and 1 Counter).	51.25
438	369	Int'l Bus. Mach. Co.	500 Madison Ave.	New York, N. Y.	1 Electrophile.	12.06
472	292	Underwood Elliott Fisher	13th and F Sts.	Washington, D. C.	1 Underwood Billing Machine—Complete	203.31
475	708	C. A. Braun.	164 Williams St.	New York, N. Y.	36 Walnut Side Chairs	225.00
475	708	do.	do.	do.	25 Walnut Steno. Chairs	322.00
483	384	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	12 Tables (34 x 60)	238.20
483	384	do.	do.	do.	24 Flat Top Desks.	759.60
483	384	do.	do.	do.	12 Secretarials	470.40
498	375	Int'l Bus. Mach. Corp.	500 Madison St.	New York, N. Y.	2 Master Clocks.	397.00
498	375	do.	do.	do.	11 #5700-2 Records	2,541.00
498	375	do.	do.	do.	100 Metal Card Racks.	340.00
498	375	do.	do.	do.	2 Time Stamps.	258.00
498	375	do.	do.	do.	3 Lamps.	34.63
543	1053	Horder's, Inc.	231 S. Jefferson	Chicago, Ill.	2 Ditto Machines, Complete	519.85
569	930	Ditto, Inc.	243 W. Harrison	do.	1 Royal Typewriter, Model (K. M. M. 12)	70.00
628	851	Royal Typewriter Co.	839 17th St.	Washington, D. C.	1 #4023 Card Cabinet (5 x 8)	122.63
655	1050	Acme Visible Records.	122 S. Michigan Ave.	Chicago, Ill.		

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 23, 1941—Continued

SCHEDULE B. OFFICE EQUIPMENT, PERIOD ENDED APR. 23, 1941—Continued

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
657	1232	All Steel Equipment Co.	72 N. Chicago St.	Aurora, Ill.	2 #3447 Storage Cabinet.	\$41.00
644	1286	The Book Shop	208 W. Washington	Joliet, Ill.	1 Doz. Lamps #400 Van Dyke	60.38
667	1044	Burroughs Adding Mach. Co.	2943 W. Harrison St.	Chicago, Ill.	2 Burroughs Calculating Machines	613.80
670	1170	Ditto, Inc.	335 E. Cass	do	1 Ditto Machine	175.10
674	939	Fitzgerald Furniture Co.	do	Joliet, Ill.	20 #607 Flat Top Desks	586.80
674	939	do	do	do	2 Pedestal Type	63.20
694	1174	Spitzer Office Furniture Co.	167 W. Lake	Chicago, Ill.	40 Walnut Costumers	100.00
697	1084	Underwood Elliott Fisher	13th and F Sts.	Washington, D. C.	3 11" Typewriters	210.00
736	599	do	do	do	1 26" Typewriter	103.50
704	596	Fitzgerald Furniture Co.	335 E. Cass St.	Joliet, Ill.	25 Flat Top Desks	103.50
704	596	do	do	do	20 Steno. Desks	815.00
765	1243	Geiser Office Furniture Co.	166 W. Lake	Chicago, Ill.	12 34" x 60" Tables	846.20
765	1243	do	do	do	10 Flat Top Desks	245.40
765	1243	do	do	do	2 Steno. Desks	207.50
765	1243	do	do	do	10 Swivel Arm Chairs	41.50
765	1243	do	do	do	2 Steno. Chairs	62.50
765	1243	do	do	do	1 10" Recording Thermometer	12.50
765	1243	do	do	do	3 Walnut Work Tables	65.71
765	1243	do	do	do	6 #1275C Lamps	72.42
765	1243	do	do	do	4 Burroughs Adding Machines	61.50
765	1243	do	do	do	7 11" Typewriters K. M. M.	684.00
765	1243	do	do	do	2 #750 Tables	497.30
765	1243	do	do	do	6 18" Typewriters	10.90
765	1243	do	do	do	4 #2572 W. Tables	471.00
765	1243	do	do	do	50 Swivel Arm Chairs	57.94
765	1243	do	do	do	40 Side Chairs	550.00
765	1243	do	do	do	215 W. Lamps	250.00
765	1243	do	do	do	50 #2407 Card Racks	16.90
765	1243	do	do	do	1 Calculating Machine	170.00
765	1243	do	do	do	211" Typewriters	306.90
765	1243	do	do	do	100 #2407 Card Racks	140.00
765	1243	do	do	do	6 #5500-5 Time Recorders	340.00
765	1243	do	do	do	2 Swivel Arm Chairs	1,386.00
765	1243	do	do	do	2 Steno. Chairs	16.07
765	1243	do	do	do	8 #5700-5 Time Recorders	1,848.00
765	1243	do	do	do	3 Legal Size, 4-Drawer File	31.85
765	1243	do	do	do	1 S x 5 2-Drawer	9.80
765	1243	do	do	do	1 3 x 5 2-Drawer	8.23
765	1243	do	do	do	2 Monroe Calculators	722.50
765	1243	do	do	do	1 Shaw Blueprint Machine	2,203.41
765	1243	do	do	do	1 #54 Check Signer	195.00
765	1243	do	do	do	1 #55 Protograph	221.50

1115	Burroughs Adding Mach. Co.	1405	208 W. Washington	Chicago, Ill	1 Burrourghs Adding Machine	171.00
1120	Louis Frey Company	1818	63 Trinity Place	New York, N. Y.	6 Drawing Tables	327.60
1145	Underwood Elliott Fisher	1845	13th and F. Sts.	Washington, D. C.	5 11" Typewriters	350.00
1164	do	1845	do	do	1 14" Typewriter	77.50
1188	Burroughs Adding Machine Co.	1883	208 W. Washington	Chicago, Ill	1 Payroll Machine	2,436.30
1212	Book Shop	1925	72 N. Chicago St.	Joliet, Ill	2 #900C Fluor. Lamps	34.69
1225	Int'l. Bus. Machine Co.	1941	590 Madison St.	New York, N. Y.	10 #2407 Card Racks	24.00
1231	Underwood Elliott Fisher	1927	13th and F. Sts.	Washington, D. C.	1 14" Typewriter	77.50
1276	do	1760	do	do	6 11" Typewriters	420.00
1300	Globe Furniture and Sta. Co.	1872	168 W. Monroe	Chicago, Ill	1 #C555 Comptometer Desk	36.75
1346	Fitzgerald Furniture Co.	1680	335 E. Cass St.	Joliet, Ill	10 34 x 60 Flat Top Desks	345.50
1346	do	1680	do	do	4 Secretaries	169.36
1412	Addressograph-Multigraph	440	do	Cleveland, Ohio	1 #30 Supply Cabinet, Complete	66.10
1473	J. Stevens Arms Co. (Div. Savage Arms)	1329	do	Mass.	6 Riot Shotguns	124.88
1559	Mosler Safe Co.	1179	do	Hamilton, Ohio	2 #203 Steel Lockers	46.00
1559	do	1179	do	do	3 Letter Files	120.00
1566	Hordors Inc.	2190-1592	231 S. Jefferson	Chicago, Ill	7 #2572 W. Tables	101.39
1566	do	2190-1592	do	do	1 Blueprint Cabinet	179.04
1566	do	2190-1592	do	do	1 #40A Punch	4.34
1592	Int'l. Bus. Mach. Co.	2194	233 W. Madison	do	30 #2407 Card Racks	102.00
1611	do	2023	do	do	200 #2407 Card Racks	680.00
1636	Marchant Calculating Mach. Co.	2231	1475 Powell St.	Oakland, Calif	1 Calculating Machine	297.50
1641	Spitzers Office Furniture	2282	167 W. Lake	Chicago, Ill	10 Walnut Costumers	25.00
1715	Fitzgerald Furniture Co.	1966	335 E. Cass St.	Joliet, Ill	20 Flat Top Desks	691.00
1715	do	1966	do	do	6 Steno. Desks	254.04
1736	C. A. Braun	1550	164 Williams St.	New York, N. Y.	26 Swivel Arm Chairs	377.30
1736	do	1550	do	do	35 Posture Chairs	328.18
1801	General Fireproofing Co.	1692	36 S. State	do	50 Side Chairs	306.25
1816	do	1578	164 W. Monroe	Chicago, Ill	2 #530, 5 Drawer, Letter Size Steel Files	198.00
1833	Burroughs Adding Mach. Co.	1774	208 W. Washington	do	10 Letter Size Steel Files	428.80
1853	C. A. Braun	1767	164 Williams St.	do	10 Legal Size Steel Files	491.80
1896	Int'l. Bus. Mach. Co.	2023	590 Madison St.	New York, N. Y.	1 Payroll Machine	2,436.30
1896	do	2023	do	do	25 #177 Walnut Side Arm Chairs	1,848.00
1906	Burroughs Adding Mach. Co.	2442	208 W. Washington	Chicago, Ill	8 In and Out Time Records	397.00
1906	do	2442	do	do	2 Master Clocks	632.22
1906	do	2442	do	do	2 Burrourghs Adding Machines	19.31
1989	Yale & Towne Mfg. Co.	2418	4530 Tacony Street	do	1 Chair	3.24
2017	Fitzgerald Furniture Co.	1966	355 E. Cass St.	Philadelphia, Pa	1 Table	77.00
2017	do	1966	do	Joliet, Ill	1 B. H. 648 Yale Hand Truck	346.50
2020	Globe Furniture and Sta. Co.	2698	168 W. Monroe St.	do	10 Flat Top Desks	254.04
2074	Int'l. Bus. Mach. Co.	2490	590 Madison St.	Chicago, Ill	6 Steno. Desks	36.75
2085	Royal Typewriter Co.	2299	839 17th St. NW	New York, N. Y.	1 Comptometer Desk	422.00
2094	General Fireproofing Co.	1692	39 S. State	Washington, D. C.	2 Time Recorders	140.00
2143	Ward Machine Co.	2664	500 S. Washington	Chicago, Ill	2 K. M. Typewriters	60.00
2185	Graybar Electric Co.	845	500 S. Clinton	do	5 Steel Boxes with Guides	31.88
JV #9	Misc. Equip.: Lamps, Card Files, Small Tables, etc.			do	1 #16 Bench Punch & Table	8.45
2210	Burroughs Adding Mach. Co.	2773	208 W. Washington	Chicago, Ill	1 #3017 Dazar	471.04
					1 Calculating Machine	316.11

Summary of equipment purchases, as per cash disbursements, for the period Apr. 23, 1941—Continued
 SCHEDULE B. OFFICE EQUIPMENT, PERIOD ENDED APR. 23, 1941—Continued

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
2266	2431-2591	Underwood Typewriter Co.	13th and F Sts.	Washington, D. C.	2 25" Typewriters	\$207.00
2266	2431-2591	do.	do.	do.	1 11" Typewriter	70.00
2298	3111	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	1 Posture Chair	10.00
2362	2597	Royal Typewriter Co.	839 17th St.	Washington, D. C.	3 Typewriters	210.00
2365	2418	Yale & Towne Mfg. Co.	4330 Tacony Ave.	Philadelphia, Pa.	6 Re-nu-Top Skid Platforms	31.08
2366	2680	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	1 Book Case	26.80
JV 37		Freighton Tables, \$15.33; desks, \$245.76; chairs, \$34.03; and miscellaneous, \$30.25.				325.37
JV 34		Misc. equipment: Waste baskets, staples, punches, small steel files, desk trays, etc.				
2470	2836	Globe Furniture & Supply Co.	168 W. Monroe	Chicago, Ill.	2 Comptometer Desks	1,464.13
2505	2246	C. A. Braum	164 Williams St.	New York, N. Y.	10 Swivel Arm Chairs	73.50
2517	1005	do.	do.	do.	15 Side Chairs	107.80
2544	2174	Int'l. Bus. Mach. Co.	590 Madison St.	Chicago, Ill.	50 Card Racks	91.87
2625	3218	Nahman & Erbe Mfg. Co.	164 W. Monroe St.	Chicago, Ill.	2 Five Drawer Steel Letter Files	170.00
		Marchant Calculating Mach. Co.	1475 Powell St.	Oakland, Calif.	1 Calculating Machine	83.70
						297.50
2632	2703	Royal Typewriter Co.	839 17th NW	Washington, D. C.	2 Typewriters	140.00
2637	2821	Underwood Elliott Fisher	13th and F Sts.	do.	1 Typewriter	87.50
2658	1530-1767	Carl A. Braum	164 Williams	New York, N. Y.	Cash Disc. Deducted in Error 1/24 and 2/20	23.78
2665	2848-1966	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	3 Tables and 22 Desks	908.07
2675	3168	Horders, Inc.	231 S. Jefferson	Chicago, Ill.	2 Lamps	20.51
2711	3137	All Steel Equipment Co.		Aurora, Ill.	2 Utility Tables	96.16
2714	2283	C. A. Braum	164 Williams	New York, N. Y.	10 Posture Chairs	128.80
2716	1891	Burroughs Adding Machine Co.	208 W. Washington	Chicago, Ill.	1 Adding Machine	194.40
2716	1891	do.	do.	do.	1 Posture Chair	18.75
3332	1891	do.	do.	do.	1 Table	3.15
2757	3289	Acme Visible Records	122 S. Michigan	do.	1 Cabinet for 8 x 5 Cards	122.63
2757	3057	All Steel Equipment Co.	208 W. Washington	Aurora, Ill.	4 5 Drawer Files and 10 5 Drawer Legal Files	526.22
2760	2540-3080	Burroughs Adding Machine Co.	do.	Chicago, Ill.	1 Burroughs Adding Machine	194.40
2769	3080	do.	do.	do.	1 Posture Chair	18.75
2769	3080	do.	do.	do.	1 Table	3.15
2795	2908	Int'l Business Machine Co.	233 W. Madison	do.	7 Time Records	1,617.00
2795	2908	do.	do.	do.	60 Card Racks	204.00
2798	3257	Interstate Bedding Co.		do.	12 Steel Folding Chairs	15.58
2856	2433	Addressograph-Multigraph Corp		Cleveland, Ohio	Addressograph Supplies, Electrocode Cabinet	125.03
2918	3381	C. A. Braum	164 Williams	New York, N. Y.	30 Side Chairs	292.50
2941	2774	Todd Sales Co.	1150 University Ave.	Rochester, N. Y.	1 Electric Check Signer	191.10
3009	1966-3392	Fitzgerald Furniture Co.	355 E. Cass	Joliet, Ill.	16 Desks	590.48

3809.	1966	do	do	10 Tables 34" x 60"	233.60
3807	2867	General Fireproofing	36 S. State	14 Drawer Filing Cabinet	93.65
3106	3067	All Steel Equipment Co.	Aurora, Ill.	6 S Drawer Letter Cabinets	210.18
3118	3578	Fitzgerald Furniture Co.	Joliet, Ill.	3 Studio Couches	54.75
3182	2246	C. A. Braun	355 E. Cass	Cash Discount Deducted in Error	4.08
3306	3512	Burroughs Adding Machine Co.	164 Williams	1 Adding Machine	194.40
26	3512	Colt's	208 W. Washington	Trans., from 210-3, 75 Police Revolvers	1,725.00
3343.	3922	Horner's, Inc.	231 S. Jefferson	1 Telephone Table	7.64
Total office furniture					68,374.67

SCHEDULE C. ENGINEERING EQUIPMENT, PERIOD ENDED APR. 23, 1941

267	267	Eugene Dietzen Co.	2425 Sheffield Ave.	Chicago, Ill.	1 Drawing Board.	\$14.85
267	267	do	do	do	1 Pr. #4425 Trestles	7.65
267	267	Kenfel & Esser Co.	127 Fulton St.	New York, N. Y.	4 Transits (2 #5060 F-2#5010) with Tripods	1,261.66
267	267	National Blue Print Co.	517 W. Adams	Chicago, Ill.	3 Gurley (#62 3750)	733.50
349	349	Fredrick Steel Co.	3635 N. Hamlin Ave.	do	4 Stadia Rods 13'	46.80
242	242	Fredrick Steel Co.	7936 S. Chicago	do	1 #310D, "Chicago" Rod with Target	20.32
222	222	Eugene Dietzen Co.	2425 Sheffield Ave.	do	2 Transits with Tripod (#6344 C & 6334C) & 1-18 With Tripod.	744.80
303.	303.	National Blue Print Co.	1617 W. Adams	do	2 Stadia Rods, N523, 14 ft.	47.35
458	458	Carl A. Braun	514 Williams St.	New York, N. Y.	4 Steel Blueprint Sections & 2 Bases	435.00
441	441	Louis Frey Co.	68 Trinity Place.	do	1 #1968 Protractor	13.50
249	249	do	do	do	1 #4843 Planimeter	37.00
176	176	do	do	do	1 #2635 Lettering Set	30.20
217	217	do	do	do	6 #2433 Straight Edge 48"	70.50
217	217	do	do	do	1 #4825 Beam Compass	12.00
217	217	do	do	do	2 23 x 31 Drawing Boards	4.14
217	217	do	do	do	1 set #2256 Transparent Curves	37.50
623	623	Eugene Dietzen Co.	2425 Sheffield Ave.	Chicago, Ill.	8 Blueprint Cabinets—4 Sanl Bases	591.10
569	569	Fitzgerald Furniture Co.	355 E. Cass St.	Joliet, Ill.	11 Window Shades	22.65
200	200	Block & Konth Co.	104 N. Chicago St.	do	Small Tools	8.89
737	737	Barrett Hardware Co.	Henderson Ave.	Chicago, Ill.	Surveying Equipment (Poles, Rods, Targets)	107.98
642	642	Kenfel & Esser Co.	520 S. Dearborn St.	New York, N. Y.	25 Drawing Tables	1,287.00
266	266	do	68 Trinity Place.	do	24 Stools	157.68
248	248	do	do	do	Tee Square Shears, Etc.	87.75
286	286	do	do	do	1 #5187 Alidade	225.00
248	248	Kenfel & Esser Co.	520 S. Dearborn St.	Chicago, Ill.	1 #5193 Tripod	40.50
286	286	do	do	do	6 Board Chains	78.42
503	503	do	do	do	1 Drawing Table.	11.70
503	503	do	do	do	8 Butt Transits with Tripods	3,019.92
503	503	do	do	do	3 18" Wye Levels	388.12
302	302	M. S. Jordan	325 N. Huron St.	do	37 Benl. Fluorescent Fixtures	1,306.39
302	302	do	do	do	2 Prism Binoculars, 8X	72.00
466	466	Metal Electric Supply Co.	20 N. Jefferson St.	Spokane, Wash.	6 Drawing Boards, 60" x 96"	131.65
915	915	National Blue Print Co.	517 W. Adams St.	Joliet, Ill.	11 5 Drawer Blueprint Fles Sections with 4 Bases.	796.42
356	356	White Pine Sash Co.	E. 4005 Broadway	New York, N. Y.	16 Drafting Tables	819.00
324	324	Fitzgerald Furniture Co.	355 E. Cass St.	do	16 Stools	95.22
493	493	do	68 Trinity Place.	do	do	do
751	751	Louis Frey Co.	do	do	do	do
567	567	do	do	do	do	do
515	515	do	do	do	do	do
567	567	do	do	do	do	do

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 24, 1941—Continued

SCHEDULE C. ENGINEERING EQUIPMENT, PERIOD ENDED APR. 23, 1941—Continued

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
615	304	Keuffel & Esser Co.	520 S. Dearborn St.	Chicago, Ill.	1 Transit & 4 Levels with Tripods.	\$1,133.00
979	940	Louis Frey Co.	68 Trinity Place.	New York, N. Y.	6 Drawing Tables.	327.60
979	740	do	do	do	6 Stools	48.33
1005	1542	Fredetick Post Co.	P. O. Box 803	Chicago, Ill.	15 #2329 Draftsman.	90.00
1123	302	Madison S. Jordan	325 W. Huron St.	do	1 Buif 18" Dumpty Levels	355.60
1124	218	Keuffel & Esser Co.	520 S. Dearborn.	do	1 #41028 Slide Rule	22.16
1191	1540	Fredetick Post Co.	P. O. Box 803	do	6 Tables	364.00
1191	1540	do	do	do	6 Stools	36.00
1497	1754	J. A. Nickelson, Inc.	5833 So. Peoria St.	do	3 Tables 5 x 8	147.00
1519	504	Fredetick Post Co.	P. O. Box 803	do	Misc. Equipment	162.08
1574	1939	Fitzgerald Furniture Co.	355 East Cass St.	Joliet Ill.	85 Drawer Blueprint Files	551.52
1587	1938	Louis Frey Co.	68 Trinity Place.	New York, N. Y.	6 3 x 3 Drawing Tables & 6 Stools	332.64
1860	306	C. L. Berger & Sons	37 Williams St. (Roxbury)	Boston, Mass.	4 45 1/2 B—Transits & 4 Levels	2,337.00
2512	3238	Globe Furniture & Stationery Co.	168 W. Monroe	Chicago, Ill.	1 Bookcase	24.30
2611	2429	Louis Frey Co.	68 Trinity Place.	New York, N. Y.	6 Drawing Tables.	280.80
2611	2429	do	do	do	10 Steel Stools.	86.40
3016	574	Keuffel & Esser Co.	520 S. Dearborn St.	Chicago, Ill.	1 Straight Edge.	10.63
3016	574	do	do	do	6 Tapes.	27.72
3016	574	do	do	do	3 Tapes.	11.55
3016	574	do	do	do	1 Planimeter	18.03
3016	574	do	do	do	1 Drawing Instrument	16.89
3016	574	do	do	do	3 Tapes	11.55
3352	574	do	do	do	1 Straight Edge.	10.63
Engineering Equipment, Total.						19,569.63

SCHEDULE D. LOCOMOTIVES—RAILROAD EQUIPMENT, PERIOD ENDED APR. 23, 1941

1036}	313	General Electric Co.	230 S. Clark St.	Chicago, Ill.	2 45-ton 300 H. P. Diesel Electric Locomotives.	\$41,250.23
1835}	2193	H. Channon Co.	210 E. No. Water St.	do	1 #2 Sutton Sord Dryer with external gratings.	66.38
3205	2820	Northwestern Motor Co.	do	Eau Claire, Wis.	4 #561 V8 N. W. Gasoline Gang Cars.	2,391.95
3295	2820	do	do	do	4 #500 A. N. W. Work & Trailer Cars.	323.57
Locomotive, Railroad Equipment, Total.						44,032.16

SCHEDULE E. PERMANENT EQUIPMENT, PERIOD ENDED APR. 23, 1941

1740	Chicago Steel Tank Company	6400 W. 66th St.	Chicago, Ill.	3 Pressure Tanks 6' 6" x 8' 8"	\$1,024.65
2016	Erie City Iron Works	3227 Carroll Ave.	Erie, Pa.	6 #150 Economic Boilers	31,808.66
2311	Mid-West Heat Service Co.	2101 N. Pitcher St.	Chicago, Ill.	Oil-Burning Equipment	8,435.44
2989	Allen Electric Equipment Co.	6101 Cass St.	Kalamazoo, Mich.	1 F. #60 Half-Hour Unitron	146.51
2988	American Electrical Heater Co.	2742 W. Third Place	Detroit, Mich.	24 #1041 Clue Pots	353.86
3301	Advance Aluminum Castings Co.	4548 Cottage Grove Ave.	Chicago, Ill.	144 1-Qt. Cast Aluminum Sauce Pans	151.20
3308	J. Klein & Son	11 Broadway	do	Water-Softening Equipment	1,070.08
2026	Ingersoll-Rand Co.	2308 W. 16th St.	New York, N. Y.	10 #2M Drills	1,410.00
2119	Jos. T. Ryerson & Son	75 Disney St.	Chicago, Ill.	18 Steel Cover Plates	1,471.63
2387	Alvey Ferguson Co.	44 Beaver St.	Cincinnati, Ohio	Furnishing & Installing Conveyor System—Payments on Sub-Contract	33,080.92
3174	U. S. Gauge Co.	200 E. Slauson Ave.	New York, N. Y.	32 6' 30" Iron Flange Cases and Gauges	230.23
3380	U. S. Electrical Motors, Inc.	100 Lakeview Ave.	Los Angeles, Calif.	2 15 H. P. Motors, complete	966.24
2477	do	31 South St.	do	3 3 H. P. Motors, complete	728.64
2534	Kulp-Waco Corporation	614 Frelinghuysen Ave.	Chicago, Ill.	1 Patter & Johnson 15" Shaper	1,110.34
2969	Ward-Leonard Electric Co.	do	Mount Vernon, N. Y.	24 #66-444 B.6" Rheostat	135.31
3101	Weston Electrical Instrument Corp.	do	Newark, N. J.	1 #461 Transformer	46.31
3148	do	6400 W. 66th St.	do	1 #155 Ammeter	44.73
2835	Chicago Steel Tank Company	do	Chicago, Ill.	1 9' 90 G. P. M. Pump with 3 H. P. Motor	261.36
2801	do	do	do	1 2 1/2' 90 G. P. M. Pump with 5 H. P. Motor	348.97
2774	The Permuit Company	330 W. 42d St.	New York, N. Y.	1 Steel Stump Tank for 3' Water Softener	70.00
2823	Kulp-Waco Corporation	100 Lakeview Ave.	Chicago, Ill.	1 #36' Bar Folder	123.97
2729	American Radiator—Standard	3716 S. Iron St.	do	200 ft. 2" Black Steel Pipe	26.17
2762	San.	5912 So. Lowe Ave.	do	6 Heavy Wire Mesh Machine Guards	124.00
2960	Acorn Wire & Iron Works	1543 Filmore Ave.	Buffalo, N. Y.	9 6' x 26" Atmospheric Crystallizing Kettles	20,484.00
3155	Buffalo Foundry & Machine Co.	11 Broadway	New York, N. Y.	1 1,000# capacity "B" Hoists	2,350.00
1522	do	do	do	2 2,000# capacity "C" Hoists	660.00
3256	Ingersoll-Rand Company	201 E. No. Water St.	Chicago, Ill.	1 set of Reamers & Pilots 3/4" to 7/8"	39.79
1522	do	6400 W. 66th St.	Aurora, Ill.	1 #3447 Steel Storage Cabinet	21.90
1521	H. Channon Company	402 N. Chicago St.	Chicago, Ill.	2 300-Gal. 10-Ft. Tanks	1,191.83
3285	All Steel Equipment Company	do	Joliet, Ill.	6 each, Police Sirens, Safety Lights, and Safety Pads	252.58
3249	Chicago Steel Tank Company	1026 W. 50th St.	do	6 sets of Seat Covers	17.46
2751	Winston Chevrolet Company	do	do	1 1 1/2" Fluted Reamer	4.63
3285	do	6400 W. 66th St.	Chicago, Ill.	1 32-ft. 20,000-gal. Fuel Storage Tank	799.88
830	Barrett Hardware Company	do	do		
2108	Great Lakes Supply Company	do	do		
2129	Chicago Steel Tank Company	do	do		
1909	Winston Chevrolet Company	do	do		
2073	do	do	do		
2072	do	do	do		
2211	do	do	do		
1910	do	do	do		
2421	do	do	do		
2834	do	do	do		
2500	do	do	do		
3067	do	do	do		
721	do	do	do		
647	do	do	do		
37	do	do	do		

Summary of equipment purchases, as per cash disbursements, for the period ended Apr. 23, 1941—Continued

SCHEDULE E. PERMANENT EQUIPMENT, PERIOD ENDED APR. 23, 1941—Continued

Voucher No.	P. O. No.	Vendor	Street	City and State	Description	Amount
1196	1948	Kulp-Waco Corporation	100 Lakeview Ave.	Chicago, Ill.	(1) Giant Arbor Press.	\$40.11
2117	1948				(2) #15 Buffalo Drills.	246.96
3132	2817					
3209	2817					
3240	2037	do.	do.	do.	1 2 Spindle #2 B. Edlund Drill Press.	593.22
2023	2037	Alemite Sales Company	2001 S. Michigan Ave.	do.	24 Alemite Guns.	62.86
588	898	Standard Oil Company	451 E. Cass St.	Joliet, Ill.	1 20 BBL. Underground Gasoline Tank.	101.16
993	1769	Alemite Sales Company	2001 S. Michigan Ave.	Chicago, Ill.	1 #7003 Alemite Pumps.	104.33
1090	1790	do.	do.	do.	1 Air Hammer Gun.	34.30
1090	1790	do.	do.	do.	1 Oil Gun.	2.66
1090	1790	do.	do.	do.	1 Shaler Vulcanizing Outfit.	7.83
1133	1918	Trackman Auto Supply Com- pany.	438 N. Chicago St.	Joliet, Ill.		
1393	2111	Standard Equipment & Supply Co.	534 Michigan St.	Hammond, Ind.	2 Tap & Die Sets.	48.28
1964	2212	Alemite Sales Company	2001 S. Michigan Ave.	Chicago, Ill.	1 Alemite Bearing Unit.	24.46
1994	2212	do.	do.	do.	1 Alemite Spray & Lubricator.	7.51
2009	2111	Standard Equipment & Supply Co.	534 Michigan St.	Hammond, Ind.	1 set #50 Williams Super Socket Wrenches.	20.92
2173	2882	Lincoln Engineering Co. of Ill.	2415 S. Michigan Ave.	Chicago, Ill.	2 Oil Guns & 2 Grease Guns.	35.72
830	1445	Kulp-Waco Corporation	100 Lakeview Ave.	do.	3 Buffalo Bench Drills with Motors.	317.59
1196	1948	do.	do.	do.	4 Buffalo Electric Drills.	416.17
1852	715	do.	do.	do.	1 Providence Electric Drill.	514.50
2120	2795	Standard Equipment & Supply Co.	534 Michigan St.	Hammond, Ind.	1 3/4" Heavy Duty Drill.	43.07
2120	2795	do.	do.	do.	1 5/8" Power Drill.	48.95
2498	3031	do.	do.	do.	1 #7 Plug Drill.	68.41
2498	3031	do.	do.	do.	1 #2 Air Drill.	176.69
2048	2575	Ingersoll-Rand Company	11 Broadway	New York, N. Y.	10 #2 M. Drills.	1,410.00
3354	3789	Kulp-Waco Corporation	100 Lakeview Ave.	Chicago, Ill.	14 #15 Buffalo Bench Drills with Motors.	1,381.00
1852	715	do.	do.	do.	1 #203519 U. S. Grinder.	127.40
523	523	Western Contractors Supply Co.	3145 W. Lake St.	do.	2 Buffalo Armor Plate Shears.	135.00
256	1852	Kulp-Waco Corporation	100 Lakeview Ave.	do.	1 Pemto Ring Squaring Shear.	264.60
1852	715	American Saw Machine Com- pany.	91 Main St.	Hackettstown, N. J.	1 Monarch Bench Joiner with Motor.	320.46
281	386	do.	do.	do.		
1852	715	Kulp-Waco Corporation	100 Lakeview Ave.	Chicago, Ill.	1 Used Bench Vise.	24.50
2531	2904	Sterling Products Company	121 N. Jefferson St.	do.	1 Sktner Planer Vise.	60.57
281	386	American Saw Machine Com- pany.	91 Main St.	Hackettstown, N. J.	1 Monarch Jr. Radial Saw.	399.84
281	386	do.	do.	do.	1 Economy Band Saw.	381.08

1852	715	Kulp-Waco Corporation	100 Lakeview Ave.	Chicago, Ill.	1 #6 Wells Motor Driven Saw	416.50
2418	2814	Olson Tool & Equipment Co.	9 S. Clinton St.	do	2 DeWalt Saws with 7½ H. P. & 28 Blades	1,800.85
1354	1731	Kulp-Waco Corporation	100 Lakeview Ave.	do	1 Used Monarch Lathe	773.46
1397	1557	do	do	do	1 Davis 1' x 6' Lathe	833.00
459	715	do	do	do	1 Sebastian 9 x 43 Lathe with "C" Shaft	156.80
2472	2038	do	do	do	1 American Headstock Lathe 14" x 6'	1,362.20
459	715	do	do	do	1 Whitcomb Planer 22 x 22 "C" Shaft	426.30
459	715	do	do	do	1 Used Arc Welder	392.00
459	715	do	do	do	1 Used Bradley Hammer	411.60
1261	715	do	do	do	1 Landis Cutter & Threader	635.04
2421	2762	Winston Chevrolet Company	402 N. Chicago St.	Joliet, Ill.	1 ¾ Special Chevrolet Ambulance	999.83
2781	3188	Frigid Fluid Company	2425 W. Van Buren St.	Chicago, Ill.	1 Ambulance, Cot, Mattress & Holder	51.90
3184	3694	H. Channon Company	201 E. No. Water St.	do	2 pr. 7.00 x 17 tire chains for Ambulance	9.60
Permanent equipment total						123,680.72

EXHIBIT IV.—ELWOOD ORDNANCE PLANT

Quantity	Description	Model No.	Size	Condition	Monthly rental rate	Lessor	Address
8	Allis-Chalmers Tractors.	HD 14.	108 H. P.	New	\$450.00	H. B. Faith Equip. Co.	Rockford, Ill.
8	Gar Wood Scrapers.	400	12 Cu. Yd.	do.	318.00	do.	Do.
2	Allis-Chalmers Tractors.	WHD-10.	79 H. P.	do.	330.00	do.	Do.
1	Gar Wood Ripper.	H-80.	29-inch Cutter	do.	106.20	do.	Do.
1	Allis-Chalmers Grader.	112	12 Ft.	do.	149.70	do.	Do.
14	Caterpillar Diesel Tractors	D-8.	110 H. P.	do.	374.05	Patten Tractor & Equipment Co.	1056 N. Kolmar Ave., Chicago, Ill.
8	LeTourneau Scrapers.	F.	12½ Cu. Yd.	do.	262.50	do.	Do.
3	LeTourneau Roofers.	K-30.	29-inch Cut.	do.	101.65	do.	Do.
2	Caterpillar Blade Graders.	77	12-foot Blade	Used	100.00	do.	Do.
1	Caterpillar Blade Grader.	66	do.	do.	100.00	do.	Do.
1	Caterpillar Tractor.	R-4.	48 H. P.	New	150.00	do.	Do.
25	Ford 4-Door Sedans.	Special.	do.	do.	42.00	Romy Hammes	Kankakee, Ill.
25	Ford Pick-up Trucks.	do.	¾-Ton	do.	37.00	do.	Do.
9	Ford Station Wagons.	De Luxe.	do.	do.	53.00	do.	Do.
1	Bucyrus-Erie Comb. Shovel & Drag Shovel.	10 B.	1½ Cu. Yd.	do.	500.00	Great Lakes Supply Co.	826 W. 36th St., Chicago, Ill.
1	Austin Ditcher.	100	do.	Used	400.00	Kennedy Cochran Co.	228 N. La Salle St., Chicago, Ill.
1	Lorain Crawler Crane.	75 A.	45-foot Boom, ¾ Yd.	do.	450.00	Conrad Ottenhoff & Co.	1214 S. Leavitt St., Chicago, Ill.
4	Northwestern Crawler Cranes.	do.	45-foot Boom, 1 Cu. Yd.	do.	500.00	Santucci Constr. Co.	Niles Center, Ill.
4	Ingersoll-Rand Air Compressors.	315 K.	315 Cu. Ft.	New	350.00	Western Contractors Supply Co.	3145 W. Lake St., Chicago, Ill.
1	Koehring Concrete Paver (Mixer).	27 E.	1 Cu. Yd.	Used	175.00	Joliet Bridge & Construction Co.	58 N. Chicago St., Joliet, Ill.
1	McMyler Crane.	do.	50-foot Boom, 23-Ton.	do.	365.00	A. H. Puffer & Co.	Rockford, Ill.
6	International Tractors.	TD-18.	80 H. P.	New	300.00	Great Lakes Supply Co.	826 W. 36th St., Chicago, Ill.
2	Link-Belt R. R. Cranes.	Type B.	25-Ton	Used	395.00	Material Service Corp.	33 N. La Salle St., Chicago, Ill.
1	McMyler R. R. Crane.	do.	30-Ton	do.	395.00	John S. Thompson Construction Co.	8145 Kimbark Ave., Chicago, Ill.
15	Miscellaneous Trucks.	do.	2-3-Ton.	do.	2 2.75	Joliet Warehouse & Transfer Co.	Joliet, Ill.
1	International Truck & Trailer.	do.	5-Ton	do.	2 4.00	do.	Do.
1	Link-Belt Crawler Crane.	42.	1-Yd. Clam.	do.	500.00	Equipment Corp. of America.	1150 S. Washtenaw Ave., Chicago, Ill.
20	Dodge Stake Trucks.	WF 32.	3-5-Ton.	New	2 2.50	Joliet Reefer Transit Lines	Joliet, Ill.
11	Ford Dump Trucks.	do.	3-Ton.	do.	3 131.66	Romy Hammes	Kankakee, Ill.

7	Mack Trucks	5-Ton	Used	23.25	Arthur F. Bairstow	4821 N. Spaulding, Chicago, Ill.
1	Chicago Truck	do	do	23.25	do	Do.
1	Ford 6-Wheel Truck	10-Ton	do	23.25	do	Do.
1	Ford 4-Wheel Truck	5-Ton	do	23.25	do	Do.
2	Bucyrus-Erie Shovels & Drag Shovels	20-B	New	695.00	Great Lakes Supply Co.	824 W. 36th Place, Chicago, Ill.
1	Gasoline Electric Welder		Used	24.00	Patten Tractor & Equipment Co.	1056 N. Kolmar Ave., Chicago, Ill.
1	Buffalo-Springfield Road Roller	KT 16	New	231.75	R. C. Larkin Co.	3001 S. Wabash Ave., Chicago, Ill.
2	R. R. Flat Cars	5-Ton	Used	41.00	Alton Railroad Co.	Chicago, Ill.
1	Ford Truck & Winch & Pole Trailer	5-Ton	New	325.00	Rayburn Truck Line	Wilmington, Ill.
2	Sullivan Air Compressors	315 Cu. Ft.	do	300.00	Great Lakes Supply Co.	Chicago, Ill.
1	Ingersoll-Rand Air Compressor	K 15	New	437.50	Western Contr. Supply Co.	3145 W. Lake St., Chicago, Ill.
1	LeRoi Air Compressor	315	New	300.00	Chicago Construction Equipment Co.	8039 S. Halsted St., Chicago, Ill.
2	Buckeye Wheel Type Ditchers	1 & 4A	Used	300.00	Kennedy Cochran Co.	228 N. La Salle St., Chicago, Ill.
1	Buffalo-Springfield Roller	KT-16	New	234.25	R. C. Larkin Co.	3001 S. Wabash Ave., Chicago, Ill.
1	G. M. C. Truck & Trailer		New	299.00	A. Ryerson Co.	Franklin Park, Ill.
1	Link-Belt Crane & Drag Line	K 44	Used	500.00	Great Lakes Supply Co.	Chicago, Ill.
1	do	K 35	Used	400.00	do	Do.
1	Caterpillar Tractor & Trackson Side Boom	30	Used	200.00	do	Do.
1	Mack Truck "A" Frame & Winch		Used	300.00	Rayburn Truck Lines	Wilmington, Ill.
1	Osgood Pull Shovel	2229	Used	700.00	Gleefeld Constr. Co.	Forest City, Iowa.
1	do	2071	Used	650.00	do	Do.
2	Ingersoll-Rand Air Compressors	GK 105	Used	145.00	Western Contr. Supply Co.	3145 W. Lake St., Chicago, Ill.
2	do	GK 210	New	355.00	do	Do.
1	Austin Gasoline Tandem Roller	5-Ton	Used	220.00	Great Lakes Supply Co.	Chicago, Ill.
1	Buffalo Springfield Gasoline Tandem Roller	5-Ton	Used	220.00	Chicago Constr. & Equipment Co.	Do.
2	Caterpillar Motor Graders	12	New	648.20	Patten Tractor & Equipment Co.	Do.
1	Caterpillar Tractor & Bulldozer	75-XD 9	New	550.00	do	Do.
3	Chevrolet Sedans		Used	45.00	Winston Chevrolet Co.	Joliet, Ill.
2	do		Used	45.00	do	Do.

1 Rent Per Week.

2 Rate Per Hour With Operators.

3 Originally Rented, Now Purchased.

4 Rent Per Day.

EXHIBIT V.—*Elwood Ordnance Plant*

SUBCONTRACTOR

THE WORK

U. S. Transit-Mix Concrete Corp., 500 Fifth Avenue, New York City.	Furnishing ready-mixed concrete requirements.
Dreher & Schorie, 802 Richards Street, Joliet, Illinois.	Drilling and equipping one 200-foot 8-inch well.
Cyclone Fence Company, Waukegan, Illinois.	Furnishing and erecting exterior fence and gates.
S. B. Geiger & Company, 37 West Van Buren Street, Chicago, Illinois.	Drilling and equipping three 870-foot, 12-inch wells.
Wisconsin Bridge & Iron Company, 5023 North 35th Street, Milwaukee, Wisconsin.	Furnishing and erecting structural steel requirements.
West Dodd Lightning Conductor Corp., 116 West Lafayette, Goshen, Indiana.	Furnishing and installing lightning pro- tection equipment in Group 2 Loading Line.
The Ruberoid Company, 5333 South Western Avenue, Chicago, Illinois.	Furnishing and erecting corrugated asbestos roofing, siding, ridge roll, and ceiling requirements.
Midwest Construction & Asphalt Co., 221 North LaSalle Street, Chicago, Illinois.	Constructing underground storage mag- azine requirements.
The Alvey-Ferguson Company, Oak- ley Station, Cincinnati, Ohio.	Furnishing and installing shell and bomb conveyor systems in Groups 1, 2, and 3 Loading Lines.
J. C. Zipprich Teaming Co., 1242 Clay- bourne Avenue, Chicago, Illinois.	Erecting nine steel boilers with sup- porting steel, stacks, and smoke breecching.
Midwest Heat Service Co., 3227 Car- roll Avenue, Chicago, Illinois.	Installing and piping nine oil burners.
The Permutit Company, 407 South Dearborn St., Chicago, Illinois.	Furnishing and installing three units of chlorinating equipment, with pumps and motors, and three units of water softener equipment.
American Chain & Cable Co., 400 West Madison Street, Chicago, Illinois.	Furnishing and erecting interior fence and gates.
John A. Iten Company, Box 150, Mel- rose Park, Illinois.	Drilling and equipping one 200-foot 10-inch well.
Ceco Steel Products Corporation, 1926 South 52nd Avenue, Chicago, Illinois.	Furnishing and erecting window sash window operators where required.
Truscon Steel Company, 201 N. Wells Street, Chicago, Illinois.	Furnishing and erecting Industrial steel doors and channel frames where required.
Central Architectural Iron Works 3105 West 27th Street, Chicago, Illinois.	Furnishing and installing steel sliding doors, with shutters and frames, where required.
C. O. Henriksen Co., 2400 W. Madison Street, Chicago, Illinois.	Constructing nine boiler fireboxes.
Economy Heating & Plumbing Co., 1208 S. Pulaski Road, Chicago, Illinois.	Furnishing and laying 500 feet of steel pipe.
M. J. Stephen Sheet Metal Shop, 424 North Broadway, Joliet, Illinois.	Furnishing and erecting gutters, down- spouts, copper roofing and erecting copper flashings where required.
General Electric Company, 840 S. Canal Street, Chicago, Illinois.	Furnishing and installing Main Power Supply equipment and Switchgear for two substations and Groups 1, 2, and 3 Loading Lines.
J. P. Miller Artesian Well Co., 9 South Clinton Street, Chicago, Illinois.	Drilling and equipping two wells, each 1,750 feet deep.
Hamilton Glass Company, 401 N. Elizabeth Street, Chicago, Illinois.	Furnishing and erecting wire glass in Inert Storage Warehouses and certain buildings in Groups 1, 2 and 3 Load- ing Lines.

EXHIBIT V.—*Elwood Ordnance Plant*—Continued

SUBCONTRACTOR	THE WORK
H. E. Anning, 309 W. Jackson Blvd., Chicago, Illinois.	Furnishing and erecting Gypsum roofing in Melt Loading and Cooling buildings, Groups 1, 2 and 3 Loading Lines.
The DeVilbiss Company, Toledo, Ohio.	Furnishing and installing bomb and shell spray painting and appurtenant equipment in Paint and Receiving Buildings in Groups 1, 2 and 3 Loading Lines.
Chicago Bridge & Iron Co., 332 S. Michigan Avenue, Chicago, Illinois.	Furnishing and installing four 150,000-gallon elevated steel water storage tanks.
W. A. Kenley & Son, 222 Smith Street, Joliet, Illinois.	Furnishing and installing plumbing in First Aid Building.
Galvin Manufacturing Corp., 4545 Augusta Blvd., Chicago, Illinois.	Furnishing and installing two-way radio system, one fixed station and six mobile units.
John W. Thomson Company, 10316 South Throop Street, Chicago, Illinois.	Furnishing and erecting galvanized iron ventilators where required.
Gjellefald Construction Company, Forest City, Iowa.	Constructing sewage treatment plant.
Automatic Sprinkler Corp., 201 North Wells Street, Chicago, Illinois.	Furnishing and installing sprinkler systems in four buildings in Group 2 Loading Line and in Administration Building.
E. B. Kaiser Co., 625 Webster Avenue, Chicago, Illinois.	Furnishing and installing plumbing and heating systems in five buildings in Administration area.
Henry Boysen, Jr., Libertyville, Illinois.	Drilling and equipping one 10-inch, 150-foot well.
White City Electric Co., 569 W. Van Buren Street, Chicago, Illinois.	Furnishing and installing electrical system for five buildings in Administration Area.
The L. E. Myers Co., Monadnock Building, Chicago, Illinois.	Furnishing and installing one and one-quarter miles of transmission line.
R. N. Schuster, Inc., 560 North Chicago, Street, Joliet, Illinois.	Furnishing and installing 900 feet of water line.
Hooker Glass & Paint Mfg. Co., 659 W. Washington Blvd., Chicago, Illinois.	Furnishing and installing door and window glass in five buildings in Administration Area.
Herring-Hall-Marvin Safe Co., 223 West Lake Street, Chicago, Illinois.	Furnishing and installing four vault doors.
Walter Bates Company, Inc., 208 S. LaSalle Street, Chicago, Illinois.	Furnishing and installing floor grating in ramps of Groups 1, 2, and 3 Loading Lines.
American Automatic Electric Sales Co., 1033 West VanBuren Street, Chicago, Illinois.	Furnishing and installing automatic telephone switchboard.
H. P. Reger & Co., 1501 East 72nd Place, Chicago, Illinois.	Furnishing and installing steam, heating, air, condensate, etc., lines in Groups 1, 2, and 3 Loading Lines.
A. F. Wagner Iron Works, 1483 N. Water Street, Milwaukee, Wisconsin.	Furnishing and installing interior and exterior iron stairs in certain Loading Line buildings.
New City Iron Works, 5401 S. Western Avenue, Chicago, Illinois.	Furnishing and installing steel floors in Nitrate of Ammonia service magazines.
Midwest Iron Works, 1042 West 11th Street, Chicago, Illinois.	Furnishing and installing pipe railings in ramps of Groups 1, 2, and 3 Loading Lines.
The Powers Regulator Company, 2720 Greenview Avenue, Chicago, Illinois.	Furnishing and installing temperature control systems for air replacement heating for bomb and shell spray painting units.

EXHIBITS Nos. 95 to 100 appear in Hearings, Part 7.

EXHIBIT No. 101

A REPORT ON THE FEASIBILITY OF A FREEWAY ALONG THE
CHANNEL OF THE LOS ANGELES RIVER, JULY 1941¹

(Prepared in the office of the Regional Planning Commission, County of Los Angeles)

COUNTY OF LOS ANGELES

BOARD OF SUPERVISORS

Roger Jessup, Chairman, Gordon L. McDonough, John Anson Ford, Oscar Hauge, W. A. Smith.

THE REGIONAL PLANNING COMMISSION

Roy Teeters, Chairman, Temple City; B. F. Shrimpton, West Hollywood; Mrs. Ella M. F. Atchley, Los Angeles; Mrs. L. S. Bacca, Los Angeles; Stiles Clements, Beverly Hills; Mattison B. Jones, Glendale.

EX-OFFICIO

O. F. Cooley, County Road Commissioner; Alfred Jones, County Surveyor; Spence D. Turner, County Forester and Fire Warden.

Wm. J. Fox, Chief Engineer, the Regional Planning Commission; Arthur H. Adams, Assistant Chief Engineer.

PREPARATION OF THE REPORT

Werner Ruchti, Head of Land Planning Division Supervision and Coordination.
Earl J. Esse, Highway Engineer; Field Investigation, Collection of Data and Detailed Plans.

Simon Eisner, Assistant to Highway Engineer in all phases of the work.

Tom D. Cooke, Planning Engineer; Assistant in Drafting the Report.

Appreciation is expressed to Mr. I. S. Shattuck, Transportation Consultant, Oakland, California, for very helpful criticism on both the content and form of the report.

Grateful acknowledgment is given to the following organizations for their assistance in assembling basic data used in this preliminary study: Los Angeles County Flood Control District, United States Engineer's Office, United States Public Roads Administration, Los Angeles City Department of Water and Power, Los Angeles City Engineering Department, Southern California Edison Company, Office of Supervisor Gordon L. McDonough.

OUTLINE

Introduction.

Freeway Proposal Visualized.

Feasibility Determined.

Recommendations for Development.

Section 1. Anaheim Street to Artesia Street.

Section 2. Artesia Street to the Rio Hondo.

Section 3. The Rio Hondo to Soto Street.

Section 4. Soto Street to Dayton Avenue.

Section 5. Dayton Avenue to Victory Boulevard.

Section 6. Victory Boulevard to Colfax Avenue.

Section 7. Colfax Avenue to Sepulveda Boulevard.

Regional Factors.

Comparisons with Other Freeway Routes.

Considerations of Roadway Positions.

A—Within the Channel.

B—On the Levees or Banks.

C—Outside the Levees.

Appendix:

Summary of Bridge Crossings.

Summary of Ownership of Right of Way.

LIST OF MAPS AND ILLUSTRATIONS

Proposed Los Angeles River Freeway.

Freeway Related to 1940 Population.

Proposed Connection with Terminal Island Freeway.

Typical Separation Treatment at Bridgehead.

Alternate Connection, Atlantic Avenue to Dayton Avenue.

Freeway Related to 1937 Traffic Flow.

Cross Section Studies:

Dayton Avenue to Sepulveda Boulevard.

Anaheim Street to Atlantic Avenue.

Chart, Los Angeles River Run-Off 1930-40.

NOTE.—Details of the alignments studied are shown in sectional maps, at a scale of 1"=400', on file in the office of the Regional Planning Commission.

¹ Included with this report were nine illustrations which are on file with the Committee.

LOS ANGELES RIVER FREEWAY

INTRODUCTION

The Los Angeles River, although its bed is dry ten months of the year is subject to occasional brief and sometimes disastrous floods. These have resulted in plans, now largely executed, to control the flood flow by construction works including dams, reservoirs and channel improvement. From Sepulveda Boulevard in the San Fernando Valley to the confluence with the Rio Hondo the bed of the river is being developed as a great concrete channel. Below the Rio Hondo present plans call only for lining the levee walls.

Observation of the concrete paved sections, with heavy construction vehicles moving about over the heavily reinforced slab bottom during the dry season, suggested to many people the idea of using that existing pavement as a roadway connecting the San Fernando Valley and the harbor area. The prospect of utilizing this concrete channel, its levees and the adjoining land as a freeway presents a project viewed most favorably by many public-minded citizens.

The project proposed would permit more efficient functioning of Los Angeles County's rapidly developing defense industries. Some of these developments have already produced dislocations of population and housing facilities. The heavy volume of traffic generated by them has already caused congestion that in a few cases amounts to appalling delay and waste. The proposed river freeway offers the quickest means of solving many of the traffic problems related to a substantial block of the defense industries. The best known of these industries are sufficient to indicate the importance of the group in relation to this project. Very near to the northerly portion of the proposed freeway lie the Lockheed-Vega aircraft factories, and the Menasco and Kinner airplane motors plants. On the central portion of the route are found the Lockheed downtown plant and the whole Central Manufacturing District with its varied production. Just east of this section lies the Vultee Aircraft plant. At the southerly end are found the new Douglas Long Beach airplane factory as well as the major oil refining area and the shipbuilding areas of Wilmington and Terminal Island. It is at once obvious that these various industrial plants have need for constant speedy movement of men and goods along the line connecting them not only with each other but with the areas where their employees reside. Even if the emergency did not demand improvement in their facilities their efficient operation in normal times would eventually require improvements comparable to the proposed freeway. The fact that the latter could be built more quickly than any other such improvement makes it of particular value when time is precious.

FREEWAY PROPOSAL VISUALIZED

The proposal as brought to the attention of the Regional Planning Commission contemplated the construction of a one-way roadway on each side of the channel. These roadways, on the levees or adjacent thereto, would be physically separated from abutting property and cross streets, passing under most of the existing bridges. Thus no cross traffic could develop to interfere with the flow of vehicles moving on the freeway, and fast, safe passage from the San Fernando Valley to the Harbor area would be assured.

By providing access points to other highways at not too frequent intervals, the resultant would be a freeway: a limited way thoroughfare with no interference from abutting properties or from cross traffic and with access permitted only at locations where movements are controlled by carefully designed construction.

Obviously the development here described would provide possibilities for landscape treatment that would make the route attractive as well as useful. The most modern design features should be incorporated in the plans for this freeway. Service stations, parking areas and terminal facilities should form an integral part of the final plans. Preliminary plans now being studied show exit and entry points permitting the most thorough distribution of traffic to the vital areas which this freeway would serve, and to connect it with the other freeways which are already constructed or which are being studied as part of a comprehensive plan.

The multiple uses to which this freeway would be put are at once apparent. It would serve as a link between the vast San Fernando Valley and Los Angeles residential areas and the beach recreation areas which extend far to the South. It would also serve to bring the people of these areas to industrial districts in the cities of Los Angeles, Vernon, and the Harbor area. It would further provide rapid means of bringing raw materials to industrial plants and for conveyance of finished products to the harbor for shipment, or to the metropolitan centers for

distribution. It would save shipping concerns great amounts of money by avoiding the "snail's pace" necessary on most of the present main highways. The provision for four lanes of traffic in each direction for the major portion of this route would permit the segregation of pleasure and commercial vehicles, with the accompanying benefits of safety to both.

Fifty thousand cars per day is a conservative estimate of the capacity of the proposed freeway. This totals over 15 million vehicle miles each month (on the basis of a 10-mile average vehicle trip) of uninterrupted traffic flow, free from the "stop and go" wastes of time and fuel, which when translated into dollars and cents, represents a tremendous economic saving to the motoring public.

The immediate construction of the Los Angeles River Freeway would greatly facilitate the National defense works in the metropolitan area. The aircraft plants of the San Fernando Valley and the shipbuilding, shipping and fortification areas of the Los Angeles-Long Beach harbors would be linked by a highway which would permit speedy movement of men and machines without in any way dislocating the civilian activities of the area.

FEASIBILITY DETERMINED

The Regional Planning Commission, after considerable study, has determined that—

1. It is feasible to construct two units of a freeway, as suggested in the introduction, along the channel of the Los Angeles River from Soto Street to Anaheim Street, and from Sepulveda Boulevard to Dayton Avenue, a distance of $35\frac{1}{2}$ miles; and
2. It appears infeasible to construct a freeway, as described, along or in, the channel between Dayton Avenue and Soto Street, a distance of $4\frac{1}{2}$ miles, which is only 11% of the total length.
3. It is feasible, however, to construct a connecting link freeway from Dayton Avenue to the vicinity of Soto Street by an alternate route which follows the foot of the bluff several blocks east of the river and which offers several distinct advantages.
4. It would be advantageous to construct the two units first mentioned, (1) south of Soto Street, and (2) north of Dayton Avenue even if the portion between were not built immediately. In this case adequate entrances and exits, not yet visualized, would have to be provided to distribute the traffic over a number of ordinary highways leading into the central business district as well as connecting the two freeway units to each other.

RECOMMENDATIONS FOR DEVELOPMENT

The general features of the scheme to adapt the Flood Control construction along the Los Angeles River to the purposes of a freeway have been briefly described in the introduction. Variations in this general scheme are to be noted in various segments along the route. These variations have been studied in some detail by the Regional Planning Commission. They are caused by differences in terrain, amount of building, street and railroad development, width of channel and right-of-way, location and size of tributary water courses, and the traffic needs of the areas to be served.

The following paragraphs contain the recommendations for the development of the seven distinct sections into which for simplicity in the analysis of the above considerations the project is divided. The physical treatment recommended is further illustrated in the accompanying sketches and cross sections.

Section 1—Anaheim Street to Artesia Street—Length $7\frac{1}{2}$ Miles

It is recommended that the top of each levee be developed into a 4-lane roadway, approximately 50 feet wide, with the west side of the channel carrying the south bound traffic and the east side carrying the north bound traffic.

An exception from this rule must be noted south of Willow Street. On the west side, where Pico Street exists as a major highway, the freeway should leave the levee and be constructed on the now private property that lies between Pico Street and the levee, in order to permit effective use of the bridges for grade separation. Pico Street would be retained as a two-way divided highway, distributing traffic from the freeway.

From Carson Street to Artesia Street the proposed Terminal Island Freeway will join the River Freeway along the west side of the channel. This section, therefore, should be developed as a two-way freeway. In this case north bound

lanes would swing across the river at Artesia Street and continue northerly with the traffic generated in the Long Beach area east of the river (See Map, page —.)¹ Additional right of way should be acquired from the Edison Company in this area. A 2-lane connection would also be made with Atlantic Drive.

Detailed surveys would be necessary to locate the roadway and the several adjoining property uses which may cause minor changes in alinement of the roadways.

It is recommended that interchange facilities be provided at Anaheim Street, State Street, Willow Street, Terminal Island freeway, Long Beach Boulevard and Artesia Street to serve the Harbor Area, Metropolitan Long Beach, Orange County, Long Beach Airport, North Long Beach, Signal Hill, Compton, and Bellflower.

Section 2—Artesia Street to the Rio Hondo—Length 2 miles

It is recommended that the top of the levees be developed into 4-lane roadways, approximately 50 feet wide, with the west side of the channel carrying south-bound traffic and the east side carrying north-bound traffic.

At the confluence of the rivers, the freeway, on the east side, should run parallel to the Rio Hondo for a short distance, crossing the Rio Hondo west of the U. P. R. R. bridge. (See Maps Nos. 13 and 14 in book of maps.) Some property may have to be acquired at the Rio Hondo to provide proper radii of curvature at the river crossing.

Some property may have to be acquired from the Edison Company on the east side, and some of the transmission towers may have to be moved to make the highway construction possible.

Detailed surveys would be required in this area to determine the exact location of the freeway.

It is recommended that no interchange facilities be provided at present between Artesia Street and the Rio Hondo.

Section 3—The Rio Hondo to Soto Street—Length 7 Miles

It is recommended that the top of the levees be developed into 4-lane roadways, approximately 50 feet wide, with the west side carrying the south-bound traffic and the east side carrying the north-bound traffic.

It would be necessary to acquire part of the transmission line right-of-way on the east side of the river, and possibly to move some towers in the area from the Rio Hondo to 61st Street.

It would be necessary to realign the Los Angeles Junction Railroad from 61st Street northerly to the river crossing now under construction.

It would be necessary to realign a short portion of Bandini Road and use the present portion adjacent to the river, as the freeway.

On the west side it may be necessary to acquire some private property upon which there is some scattered small home development between Firestone Boulevard and Randolph Street.

South Riverside Drive, which exists from Randolph Street to Atlantic Avenue, would be retained as a two-way service street, independent of the Freeway.

In this area it may be necessary to build the roadway out into the channel, raising the height of the berms by constructing parapet walls so that the capacity of the river would not be decreased.

From Atlantic Avenue to Soto Street, the Los Angeles Junction Railroad would have to be realigned so that the top of the levee might be used for the Freeway. A portion of the Freeway, at this point too, might be built into the river channel, as mentioned above.

It is recommended that interchange facilities be provided at Firestone Boulevard, and Atlantic Avenue, to serve Huntington Park, Maywood, Bell, South Gate, Downey, and the East Los Angeles area.

Section 4—Soto Street to Dayton Avenue—Length, 4½ Miles

It is recommended that a freeway connection for this section be developed on some alternate route to be definitely determined upon more detailed study of related developments. It was found that none of the proposals for roadways in or immediately adjacent to the channel was feasible because of the intensive development along the banks of the flood-control channel from Soto Street to

¹ See footnote supra, p. 1938.

Dayton Avenue. In this section, construction is practically completed on a concrete lined channel which occupies practically the full width of the right-of-way, so that there is no room within the right-of-way for roadways on the bank. This fact obviously eliminated any consideration of using the typical method.

The variation of locating the roadways immediately outside the right-of-way was investigated with little success. The land adjoining the river is occupied throughout most of this length by railroad lines of first importance both in the general transportation system and in point of service to the industrial district. Together with the fact that the many bridges in this area have been designed and built to accommodate these rail lines below the level of vehicular traffic, the general removal of rails to make way for the freeway could not be seriously considered.

Roadways in the Channel.—In this section then, the greatest effort was made to find a means of using the bed of the channel for roadways, even if this might mean closing the section to traffic during storm flow. Use of the existing concrete bottom as pavement proved difficult because of the numerous drains that empty into the channel at points all along the course, since even a trickle of water would render the pavement slippery and dangerous.

It was then proposed to meet this difficulty by having the roadways elevated above the bed of the channel, sufficiently to allow all drains to be carried underneath and empty into the center or summer channel. The building of such raised roadways would, of course, have lowered the capacity of the channel, so it was proposed to raise the side walls to compensate for this. It was still proposed that in rare periods of peak flow of water these roadways could be closed, to serve as waterways.

The need for entrance and exit ramps for connections to cross traffic arteries, so vital in this downtown location, created increasingly difficult problems.

These involved the conflicting needs of hydraulics and traffic, and such expensive construction as flood gates and tunneling through the channel walls underneath numerous rail lines.

The greatest problem was caused by the confluence of major washes with the Los Angeles River. The Arroyo Seco is the best example. How to conduct a stream of this magnitude across (i. e. under) the easterly roadway is a problem for which no reasonably practicable solution has yet been found. Raising the easterly roadway high enough to permit bridging the Arroyo, would create a major obstruction in the river at the point of confluence, creating hydraulic difficulties that could, of course, not be tolerated by the Flood Control Engineers.

Channel Route Considered Impractical.—It was at length concluded that, on the strength of data available to this department, the location of a freeway within or immediately adjacent to the Flood Control right-of-way is not feasible. Further study of the hydraulics involved, by the engineers of the Flood Control District and the United States Engineers Office, might possibly discover some suitable method, although such an eventuality seems most improbable.

This conclusion does not mean, however, that there is no solution for this central link in the project, nor that the project as a whole cannot be recommended. It means only that the freeway cannot be built economically in this exact location.

Even if no central link were ever built the two north and south units would be of such great value as to justify their construction. It must be noticed, however, that in this event it would be necessary to build a number of connections from each unit into highways leading into the central business district. The traffic load would have to be carefully spread over a number of such highways so as to avoid dumping too heavy a load on any one. Along these highways, near the center of the business district it would also be necessary to provide adequate terminal parking (and perhaps bus) facilities. It would further be necessary to provide suitable connections to north and south highways joining the north and south units to each other.

Alternative Route Recommended.—One possibility for an alternated all-weather route between Soto Street and Dayton Avenue has been investigated and is recommended for more detailed study. This route lies along the foot of the river bluff, some few blocks easterly of the river itself. Leaving the river channel near Soto Street, it would follow more or less the foot of the bluff, along Pecan Street, Echandia Street, Judson Street, Daly Street, and Avenue 21 to again rejoin the river route just north of Dayton Avenue. A variation on this route might be combined in part with the proposed Santa Ana freeway.

In any such route as these a considerable acquisition of land would be necessary for a right-of-way of adequate width for a distance of approximately four and a

half miles. This increase in cost would perhaps not be more than the cost of elaborate flood gates, tunnels, etc., that were suggested for the river-bed location.

No definite recommendation can be made for the location of interchange points in this section until a definite route is fixed and the physical possibilities and traffic demands can be studied in some detail. It is obvious that comparatively frequent entrances and exits will be needed between Olympic Boulevard and Ramona freeway, to provide adequate access to and from the central business district. In this area it will be necessary also to provide for connection to other freeways, serving areas both east and west of the river.

Section 5—Dayton Avenue to Victory Boulevard—Length, 7 Miles

It is recommended that a 4-lane, one-way roadway be constructed on each side of the river, using the existing paved portions of the top of the levee.

Some additional property may have to be acquired, in the area between Dayton Avenue and Griffith Park, on the southwest side. There are some inexpensive frame dwellings near the flood-control right-of-way in this area. On the northeast side of the river it would be necessary to acquire some railroad property and to move a portion of the existing railroad tracks in the classification yards to permit construction of the roadway. There is sufficient unused space in the yards to permit this track realignment.

In some such areas it may be advisable to construct the roadway by extending it into the channel, and raising the height of the berms, to retain the river capacity. (See Cross Section Diagrams, pp. ——— and ———.)¹

In a portion of the area in Griffith Park it would be necessary to slightly realine the existing Riverside Drive.² No additional private property would have to be acquired here, as the entire area is part of Griffith Park.

Some additional right-of-way would be required at interchange points and at some separation structures.

It is recommended that interchange facilities be provided at Fletcher Drive, Los Feliz Boulevard, and Victory Boulevard to serve the Silver Lake District, Eagle Rock, Hollywood, Glendale, Burbank, and the San Fernando Valley.

Section 6—Victory Boulevard to Colfax Avenue—Length 5½ Miles

It is recommended that a 3-lane one-way roadway be constructed on each side of and adjacent to the channel, between Victory Boulevard and Lankershim-Cahuenga Boulevards. The latter would be the terminus of the north roadway in the first stage of construction. The south roadway would continue along the channel as a 3-lane one-way roadway to connect with Ventura Boulevard in the vicinity of Colfax Avenue.

Some additional right-of-way may be necessary in this area. The channel construction has not been completed beyond Fairview Street, and it would be necessary for the U. S. Engineering Department to complete its work in this area prior to or in conjunction with the freeway construction.

It is recommended that interchange facilities be provided at Whitnall highway (when constructed), Barham Boulevard, Lankershim Boulevard, and Ventura Boulevard near Colfax Avenue to serve the San Fernando Valley, as well as to provide connections with Cahuenga Freeway and the various State highways west and north.

Section 7—Colfax Avenue to Sepulveda Boulevard—Length 4½ miles

Further study should be given to the possibility of extending the freeway along the proposed channel improvements of the Los Angeles River to Sepulveda Boulevard. This would provide a bypass for the through traffic from the western San Fernando Valley and from north coastal areas to metropolitan Los Angeles, the central manufacturing district and the Los Angeles-Long Beach Harbor area. It would seem, however, that the Victory Boulevard and (proposed) Whitnall Highway connections would serve the San Joaquin Valley traffic even better than would a Sepulveda Boulevard connection to the freeway. Detailed surveys would be required in this area to determine what private property, if any, would have to be acquired.

It would be necessary for the U. S. Engineering Department to complete the flood control improvements prior to or in conjunction with the construction of this portion of the freeway.

¹ See footnote on p. 1938, *supra*.

² Or present Riverside Drive might be incorporated into the freeway.

In every instance where the flood-control construction is still to be undertaken, the plans should be made to incorporate the freeway features in advance of construction.

REGIONAL FACTORS

The considerations that led to the conclusions and recommendations previously presented involved an analysis of the relation of the project to the region as well as varying construction details at different points along the course. Certain general observations may be made before proceeding to the analysis of the elements and difficulties found in this project. The favorable aspects of the project as a whole are so outstanding as to be almost obvious. There should be nothing surprising in the conclusion that the Los Angeles River forms an effective and superior route for a major artery of communication. For while the city was originally located near the river for the sake of a water supply, and the mouth of the river became an industrial harbor, the urban development has for the most part avoided the immediate banks because of flood hazards. Consequently, the river, penetrating to the industrial and commercial heart of the metropolis from two directions, fortunately preserves throughout most of its length the space necessary for such an artery.

More specifically the advantages to the metropolitan region to be found in the proposal are as follows:

1. The proposed freeway, approximately 40 miles in length, cuts through the center of the metropolitan area of Los Angeles County and would serve directly the cities of Burbank, Glendale, Los Angeles, Vernon, Maywood, Bell, Huntington Park, South Gate, Lynwood, Compton, Signal Hill, and Long Beach, and the communities of North Hollywood, Eagle Rock, East Los Angeles, Bell Gardens, Hynes, Bellflower, and North Long Beach. Indirectly (by means of feeder lines) many other communities would be greatly benefited, notably Downey, the Pasadena area, and the western San Fernando Valley.
2. The location of the proposed freeway, in respect to the region, is such that it would offer the fastest and most convenient route between the centers of population, commerce, industry, and recreation which are distributed along its route from the San Fernando Valley to the Los Angeles-Long Beach Harbors. The route would probably carry a greater amount of traffic into and out of the central business district than from southern to northern points. The pressure for adequate ways into the central area exists now. The proposed freeway, providing fast, uninterrupted service, would therefore be of great value considered as a pair of radial arteries serving the downtown area.
3. The Los Angeles River Freeway route has reasonable directness of alignment between the San Fernando Valley, the Central Business District of Los Angeles, the Central Manufacturing District, and the Los Angeles-Long Beach Harbor. For it must be noted from experience with other freeways (as in the New York region) that the saving in time through elimination of traffic delays (principally in surface intersection) far outweighs any disadvantage in slightly greater lengths or a somewhat roundabout route. Actually the Los Angeles River is the shortest route between many of the points which it connects.
4. Approximately 35 miles of the Los Angeles River Freeway would be located within Flood Control right-of-way so that expenditures for land acquisition would be comparatively small.
5. This project would take advantage of a majority of the 60 existing bridge structures carrying traffic across the flood-control channel. Certain structural modifications would be required at the abutments of bridge structures to permit the separation of freeway and cross traffic. Twenty-three new bridges, as contemplated by the Master Plan of Highways, would provide for the Freeway requirements when built.
6. Engineering Construction problems in this freeway project could be solved without excessive expenditures of funds.
7. The over-all costs of this project would be considerably less than for any other combination of freeway routes to serve this extensive area.
8. There is a possibility of using the freeway for rapid transit bus operation, although this subject has not been explored thoroughly. A decision would perhaps rest in the authority of the Railroad Commission or other jurisdictions for whom we cannot speak. Moreover, no data is avail-

able to determine whether or not such bus operation could be undertaken economically. Since, however, such mass transportation would carry more people per vehicle, thereby using less roadway space, and eliminating parking problems at terminals, it might save costly expenditures at other points and should therefore be seriously considered. If convenient bus operation on the freeway should prove successful it would unquestionably and materially reduce highway congestion in many of the defense areas.

9. The tremendous industrial and residential expansion that has developed, and which continues to develop with increasing momentum, in the areas served by this route, with resultant increases in traffic volumes, indicates the imperative necessity of developing some type of traffic carrier superior to the ordinary highways. The river freeway offers the quickest opportunity for such improvement.
10. This project would form a vital link in the local network of military roads, access roads, and feeder roads.
11. Funds for the construction of roads of importance to National Defense should be available upon passage of bills now pending in Congress.

COMPARISONS WITH OTHER FREEWAY ROUTES

The importance of items 4 and 5 can be best illustrated by a rough comparison with possible development of a freeway on some line such as Santa Fe Avenue or Alameda Street. On the latter route, for example, in a distance of nearly 17 miles from Olympic Boulevard to Anaheim Street, the number of necessary highway crossings, both existing and proposed, was examined. These amounted to 24 major highway crossings, 11 secondary highway crossings, and 17 local street crossings as well as 12 railroad crossings. With the exception of a few of the local street crossings, all of these would have to be separated from a proposed freeway, requiring at least 58 grade separation structures, all new. In the equivalent section on the river freeway route, a distance of 18½ miles, there would be only 49 such structures, 37 of which can utilize existing bridges. Sixteen of these 37 existing bridges are so constructed that the freeway can pass under them at considerably less cost than would be required for building an entirely new structure. Further, the construction costs for each structure at the river location would be less than on Alameda Street, because the existence of fewer underground utility lines, sewer, and drainage lines would demand less reconstruction.

Considering all of these points, it appears that construction of grade separations alone on an Alameda Street line would probably cost about four million dollars more than on the river line.

As for other features of construction, the costs on a line such as Alameda Street would vary with the general method of construction chosen. Large right-of-way costs would be encountered in developing a surface freeway through the intensively built up sections lining Alameda Street from Olympic Boulevard to the southerly boundary of Compton. A large part of these right-of-way costs could be avoided by construction of an elevated freeway throughout this section, but the construction costs would be materially increased and would greatly exceed construction costs on the river freeway as proposed. It is estimated that elevated construction would cost at least \$1,500,000 per mile, a total of \$15,000,000 for this 10-mile portion. Assuming somewhat lower average cost for the remainder of an Alameda Street line, construction from Compton to Anaheim Street might amount to about seven million dollars, giving a total of twenty-two million dollars for the entire route.

In the case of the river free way as here proposed, the construction cost of the section from Olympic Boulevard to Anaheim Street is estimated at about twelve million dollars, ten million less than an elevated Alameda Street route.

It is impossible to arrive at any figure for right-of-way cost on an Alameda Street line, at this time. If a surface construction were contemplated it would necessitate not merely the purchase of large amounts of land and improvements, with large severance damages, but also the rights of access to Alameda Street which such property now enjoys. Even if an elevated highway should be constructed, it would still be necessary to acquire considerable amounts of right-of-way for access ramps. Because of their interference with existing buildings, these acquisitions would cost much more than similar access acquisitions on the river free way.

It is obvious, therefore, that right-of-way costs on any such route as Alameda Street or Santa Fe Avenue would greatly exceed the comparatively small amounts necessary on the river free way.

A further consideration not connected with costs should be brought out. In case of an elevated free way it would perhaps be considered economical to restrict the use of the elevated section to fast, lightweight vehicles, providing a surface-level road, underneath, for slower-moving truck traffic. In this case the large proportion of industrial truck traffic, which is vital to this portion of the county, would not derive any savings in travel time from the free way. One of the strongest arguments for the necessity and value of the free way would therefore be lost.

Lastly, it is clearly apparent that any proposal to follow a route such as Alameda Street or Santa Fe Avenue would involve very extensive delays. Lengthy detailed surveys would be required before any detailed planning or acquisition proceedings could be begun. Acquisition proceedings on so many highly developed properties would doubtless consume several years after that. In the case of the river location, enough survey data is already available that both preliminary detailed studies and detailed precise surveys can be begun immediately. The small amounts of acquisition necessary for interchange and other special points would not require a great deal of time in any case and in most instances would not delay the construction program at all. In most such cases the initial free-way construction could be undertaken on existing rights-of-way, the interchanges and widenings taking place later on as the traffic need develops and as the small parcels of land are acquired. The river free-way construction could be well under way before the complex preliminaries on any other route could be cleared away.

CONSIDERATIONS OF ROADWAY POSITIONS IN RELATION TO LEVEES

Investigations of the general proposition to construct a free way along the channel of the Los Angeles River presented three alternatives distinguished by the location of the roadways.

Various early proposals had suggested building these roadways:

- (a) within the channel proper,
- (b) on the levees or banks,
- (c) outside and adjacent to the levees.

A preliminary study examined the feasibility of using each of these schemes for the project as a whole. Later more detailed studies were made of the feasibility of applying one or another of these types along the various sections of the project which appeared to have differing characteristics. On the basis of information available at this time, the conclusion was reached that the first method, that of building roadways entirely within the channel, would be infeasible at practically all points along the route.

The points considered in each of these three cases are discussed in the following paragraphs.

Roadways within the Channel.—The construction of the flood-control channel with its heavily reinforced concrete base and walls, the movement of heavy vehicles used in the construction, and the ease of controlling the normal flow of water by means of sandbags and low earth dykes gave rise to the idea, in the minds of many observers, of using the bed of the channel as a roadway during the dry months of the year. It seemed to be a simple matter to construct low walls to form a center channel to confine the relatively small amount of water flowing possibly 95 percent of the time, so as to permit the use of the sides of the wide channel for freeway purposes.

The first proposal, therefore, was simply to use the concrete floor of the channel as a motorway during the dry season and to close the channel to vehicle traffic during periods of heavy flow.

Studies soon revealed that a serious problem would be created at the large drains and washes entering from the sides. Various methods of conducting the water into the center channel were examined in an attempt to find a means of providing for traffic on the side strips without interfering with the flow of the water. In the portions having a trapezoidal cross section it was proposed to locate the roadways high up on the inner slopes of the levees. These roadways would be built partly on a fill held by a vertical retaining wall, and partly cut into the levees, increasing the water capacity of the channel to compensate for the fill. In the portions having vertical side walls it was proposed to build the roadway in the bed of the channel but raised from four to six feet above the bed, to allow ordinary drainage structures to pass underneath. Hydraulic capacity would be maintained by heightening the parapet walls.

It appeared, however, that at the mouths of major washes these devices would not satisfy the hydraulic requirements. Moreover, in the already completed portions of the project either method would have required costly changes in the concreted pavings or facings. If the channel were still to be built the designs could perhaps be economically adapted to the dual purposes proposed.

No solution has yet been found, however, that did not result in obstruction of the flow of water within the channel. Conferences with Flood Control District and United States Army Engineers, disclosed that such obstructions would not be acceptable from the standpoint of the hydraulics involved.

Secondly, the cost of construction of ramps, floodgates, and various interchange roadways and facilities would amount to considerably more, in this case, than if the roadways were located on top of, or outside, the levees. Possible hydraulic problems caused by these entry and exit facilities were not disposed of satisfactorily.

It was therefore concluded that the originally proposed use of the paved bed of the channel as a freeway is not feasible.

It should be noted, however, that had the Flood Control Channel improvement and the Freeway been originally designed as one project it might have been possible to solve the construction problems indicated above.

Further study by flood-control engineers might find some solution not yet considered, but in the light of information available to this office no satisfactory solution on this basis is apparent at this time.

Roadways on the Levees or Banks.—With the first alternate rejected, attention was turned to the possibility of developing roadways on the levees or banks adjacent to the channel proper and generally within the flood-control right-of-way.

By "banks" is meant the flat surface adjoining the top of the channel in areas where the channel does not have to be built above the level of the surrounding country. The location contemplated on both levees and banks is well illustrated in the Cross Section Study entitled "Trapezoidal Section between Hyperion Avenue and Victory Boulevard" (page —).¹

This type of construction would not interfere with the flow of water in the flood-control channel. It would, however, require that the levees be developed according to the ultimate plan of the United States Engineers prior to or at the time of the free way construction.

Some additional right-of-way would be required at interchange points and for grade separation structures at some of the bridge heads.

Under this system roadways in this location would require a minimum of expenditure for land acquisition, for:

- (a) The proposed freeway would make use of rights-of-way already owned or for which easements have been granted to the Los Angeles County Flood Control District, thus eliminating the need for extensive land acquisition. It may be necessary, however, to acquire, for road purposes, those portions of the Flood Control right-of-way which are not held for this purpose; these apparently amount to about 46% of the present length of the right-of-way.²
- (b) Payment of severance damages to properties adjacent to the river will not be necessary (as in most cases of freeway acquisition) since rights of access to property are already denied by the existence of the Flood Control channel as a physical barrier, and by the terms of acquisition of the Flood Control right-of-way; and further,
- (c) Ownership or control by public agencies of the Flood Control right-of-way and certain adjoining lands would tend to permit construction of the freeway in the immediate future, i. e., with much less delay than on any comparable route.

There are many places along the route where the width between the top of the channel bank and the boundary of the right-of-way is not quite wide enough to accommodate a four-lane roadway. This deficiency could be made up either by occasional slight acquisitions, of slivers running up to as much as 10 to 20 feet in width or by building the roadway out over the sloping wall of the channel by this amount.

Roadways outside the Levees.—The location of the roadways completely outside of, and adjacent to, the levees where they exist appeared to offer many advantages. This condition obtains mainly between Anaheim Street and Soto Street.

¹ See footnote, supra, p. 1938.

² For an analysis of the status of the right-of-way, see Table of Ownership, p. 1948.

Briefly the advantages of this plan are: no interference with flood control, ease of developing interchange facilities, use of bridge approaches as separations at comparatively low construction cost, use of roadways during flood periods, existence of a planned highway alignment, bridging of drains and washes in a normal manner, and great opportunity for parkway treatment. Moreover, the roadways could be constructed prior to final development of the levees.

On the other hand it would be necessary to move more physical obstructions, such as transmission towers. The principal objection to the plan, however, is that considerable additional right-of-way would have to be acquired, causing not only greater expense but also delay in procedure.

This factor appeared to be so important at the present time that it led to the decision not to recommend the location of the roadways outside the levees for the major portion of the project.

There are also a few points along the route where the bordering land is so intensively built up with substantial, valuable buildings that the latter method, extending the roadway out over the channel area for short distances, seems to be indicated. The construction of parapet walls on each side of the channel would compensate for the area so used by the roadways. (For variations of these conditions see Cross Section Studies on pages 42 and 45.)

With the roadways on the banks or levees interchange facilities with cross highways could be constructed with less complication. This type of development could be used between Anaheim Street and Soto Street and between Dayton Avenue and the northerly terminus of the proposed free way.

Due to the intensive development of the banks of the channel to industrial uses and the location of main-line railroad tracks immediately bordering on the channel between Soto Street and Dayton Avenue it appears to be infeasible to use the banks for freeway development in this area.

Summary of bridge crossings on the Los Angeles River between Colfax Ave. and Anaheim St.

Highway bridges		Railroad bridges	Foot bridge and bridle path	Oil and water lines
Existing	Proposed			
40	23	18	2	2

Summary of ownership of right-of-way, Los Angeles River flood-control channel, between Victory Blvd., Glendale, and Anaheim St., Long Beach

	Miles	Percent
North and east side:		
Fee ownership.....	13.3	41.2
Road and flood-control easement.....	2.0	6.4
Flood-control easement.....	16.2	51.5
Total.....	31.4	100.0
South and west side:		
Fee ownership.....	16.5	52.5
Road and flood-control easement.....	1.8	5.7
Flood-control easement.....	13.0	41.3
Total.....	31.3	99.5
Right-of-way questionable.....	.1	.5

EXHIBIT No. 102

[Copy of telegram]

AUGUST 13, 1941.

TRUMAN SENATE INVESTIGATING COMMITTEE ON NATIONAL DEFENSE PROGRAM,
Washington, D. C.:

Due to present hazardous fire conditions existing in San Gabriel mountain range and for protection southern California water supply and metropolitan water district aqueduct and water sheds surrounding defense communities located

in southern California it is vitally important and absolutely necessary that C. C. C. camps now located at Angeles Crest, Dalton Canyon, and Tuna Canyon be retained until after hearings to be held by your committee at Los Angeles in September.

ALTADENA CITIZENS ASSOCIATION.

EXHIBIT No. 103

165 So. ROOSEVELT AVE.,
Pasadena, Calif., August 15, 1941, 8:30 P. M.

Telephone: S. Y. 6-7324
S. Y. 6-7324

SENATOR MON C. WALLGREN

DEAR SIR: As per my phone conversation with you this evening regarding orders to close Angeles Crest Camp #903—C. C. C., I called Lt. Col. Lucian D. Bogan—Van Nuys, Phone State 51146, in charge of Southern district. Had left for evening; will call him in morning and secure date of order and call you at 9:30 a. m. Saturday—8/16.

Please find copies of C. C. C. Data from Charles H. Taylor, Asst. Director, C. C. C., Washington, copy of letter to President, copy of wire to Mrs. Eleanor Roosevelt, & the Hon. Paul V. McNutt, and copy to Los Angeles Supervisors.

This data may give you some points to consider, if you can look them over or have Mr. Clark check them at breakfast.

I have important facts about this entire Arroyo Seco Area which I am sure your committee will want to consider. "I have the facts."

Please hold for me copies of C. C. C. letters and copies of wires and copy of snap shot showing how far back my interest in our mountains goes. Picture taken on Mount Wilson in 1912 was first of the "Forest Observers" appointed by Supervisor Charlton.

You have been most kind and I would not have gone to all this effort if I did not believe it important to protect a "50-year Cover Crop" on our mountains.

Sincerely,

GEO. L. KELLEY.

EXHIBIT No. 104

State Traffic Safety Committee.

Statewide Street and Highway Comm.
California State Chamber of Commerce

165 SOUTH ROOSEVELT AVE.,
Pasadena, Calif., August 7, 1941.

SECRETARY EARLY OR ACTING SECRETARY.

DEAR SIR: During the absence of the President, it would be greatly appreciated by his friends in California, if you could arrange that notice of the contents of this enc. letter be sent to the Senate investigating committee on national defense and if possible the request go forward to James McEntee, Director of C. C. C. to maintain the "Status Quo" as at present of Angeles Crest C. C. C. camp #903 and that present enrollees be maintained at Tuna canyon, state camp, until all the facts can be presented to investigating committee and the President.

Telegrams from conservation association of So. California are going forward to C. C. C. Director James McEntee to keep personnel of those camps under Dalton camp F 126 in this area. We are arranging that telegrams will follow from Calif. State Chamber of Commerce, Los Angeles and Pasadena Chamber of Commerce requesting "Status Quo" be maintained as at present date at Angeles crest camp #903 F 384 and Dalton camp F 126 and State camp at Tuna canyon.

On Oct. 4, 1940, President authorized \$1,170,000 to be spent to prevent fires in Arroyo Seco and now the men who handle the rools are being taken away. That is all Churchill wanted, was "Tools to Win the War," all we want is let us keep the men to handle the "tools to fight forest fires." California will appreciate this courtesy.

Yours Respectfully,

GEO. L. KELLEY.

EXHIBIT No. 105

[Copy]

State
Traffic,
Safety
Committee.

Statewide Street and
Highway Comm.
California State
Chamber of Commerce

165 SOUTH ROOSEVELT AVENUE,
Pasadena, California, August 7, 1941.

President FRANKLIN D. ROOSEVELT,
Washington, D. C.

DEAR MR. PRESIDENT: Enclosed please find clippings which show the necessity of protecting OUR WATER LIFE LINE in southern California. Our airplane plants are dependent on water and it is necessary to have mobile suppression crews at strategic points along the aqueduct "water life line" from Owen's valley and Boulder dam to Los Angeles to reach and put out fires quickly before they reach large proportions.

Our Angeles Crest camp No. 903 spike camps are doing this now. These Water Life Lines Supply 50,000,000 people and immense defense industries, also large oil reserves.

Following the C. C. C. appreciation day as requested by Mr. Paul V. McNutt enrollment was stimulated in Los Angeles area and boys enlisted for Federal Angeles Crest camp F. 384 (Co. 903), Dalton camp F 126 and State Tuna canyon camp.

The July enrollment in Los Angeles which went in for vocational training, because of lack of publicity and insufficient interest in Fresno district which resulted in small enrollment there, our quota was sent to Fresno, Camp Roberts, and Fort Ord.

Eighty of the boys came back asking reinstatement in Los Angeles area. We would request that these camps maintain their Status Quo as denoted in Mr. Taylor's, Director C. C. C., letter of June 25th which indicated that camps F 126 and F 384 had been approved for continuance during the 17th work period of C. C. C. work expiring Sept. 30, 1941.

We request that this matter be referred to the Senate committee investigating national defense and that the record of these 80 boys be cleared and they be given a chance to reenlist during the supplemental period from August 21 to 31.

Our Western Senators, the Hon. Senator Murdock and Hon. Congressman Robinson of Utah and Hon. Senators Murray, of Montana, and Hon. Wallgren, of Washington, should be commended for their help to our California Senators and Congressmen and interest shown in protecting our Water Life Line supplying our airplane plants and oil supplies so necessary for our National Defense and to make effective our Lend-Lease bill.

I am sure I voice public opinion that a complete investigation be made before taking away our forest-fire protection in So. California.

My letter to you of June 7 and wire to Mrs. Eleanor Roosevelt of June 13 answered by Ralph W. Magee, Adm. Officer, cover the situation and as these three camps in question occupy a strategic position, that their Status Quo be established to Sept. 30 as on file in C. C. C. Headquarters at Washington, so that this matter of mistaken enrollment be cleared up.

We enrolled enough boys to maintain these camps if we could have retained them here, where they were needed most.

Your interest in our successful C. C. C. and Mrs. Roosevelt's interest in keeping up the morale of our boys bespeak your support and that all the facts be placed before you before anything is done to disturb the Status Quo of these camps protecting the Los Angeles area, before August 15.

Yours Respectfully,

GEORGE L. KELLEY,
Pasadena Safety Chairman.

c. c. Clippings.
glk/zck.

EXHIBIT No. 106

[Copy]

JULY 8, 1941.

Mr. WILLIAM DUNKERLEY,
Secretary, Pasadena Chamber of Commerce,
Pasadena, California.

DEAR MR. DUNKERLEY: In consideration of the Chamber's interest in conservation, the Pasadena Chamber of Commerce Conservation Committee has been active in protecting our forests and water supply from sabotage and in preventing forest fires in this region, particularly of the Arroyo Seco Canyon. Over a period of a year great diligence has had to be exercised in following up every essential lead to provide manpower to operate and meet this constructive need.

George L. Kelley has at my request followed through constantly with Carl Hinshaw, Senator Murdock of Utah and Wm. V. Mendenhall, Supervisor of Angeles Crest National Forest. Today through a story in Pasadena Post, edited by Blythe Foote, we have evidence of the work well done by Mr. Kelley.

Mr. Mendenhall has been called to San Francisco, but, according to the publicity the C. C. C. Camp, No. 903, located in Oak Park, is to be maintained until September 30, and there also have been made appropriations to prevent sabotage and provide reasonably adequate forest service for fire control.

When I attended this morning's meeting I was not aware of these circumstances. Therefore, kindly accept this as my report, for it is a sequel to the efforts of 1938 and the well-established plan of the Conservation Committee of the Chamber of Commerce, which has again succeeded this year in protecting our natural resources.

In closing I wish to commend the help rendered the Committee by Mr. Kelley.

Sincerely yours,

CECIL F. MARTIN,

Chairman, Conservation Committee, Pasadena Chamber of Commerce.

cfm:m

EXHIBIT No. 107

[Copy]

PASADENA, CALIFORNIA,
 165 South Roosevelt Ave., August 11, 1941.

Board of Supervisors, Los Angeles County.

GENTLEMEN: Referring to letter placed before your Board 7/28/41 filed with L. A. County clerk, Miss Burke under file A 6235, the Status of July enrollment for C. C. C. camps was presented to conservation association of So. Calif. resolution to retain all present C. C. C. personnel under Dalton camp sent to James McEntee, National Director of C. C. C., as per enclosed clipping.

Arrangements are being made to have telegrams go forward to James McEntee, Director C. C. C., Washington, D. C. from Calif. State Chamber of Commerce and L. A. and Pasadena chamber of commerce, City of Long Beach and Huntington Beach requesting that Statue Quo as at present be maintained at Angeles Crest camp No. 903, Dalton camp and Tuna canyon State camp and that a request be sent to "Truman Senatorial investigating committee" on National defense for an on the spot investigation regarding the adequacy of our forest fire protection of our "water life line," from Owen's valley and Boulder dam to Los Angeles.

Our C. C. C. Angeles crest No. 903, Spike camps have been acting along our aqueduct in this capacity.

Mr. Harry Hopkins recently commented on the necessity of protecting by warships the "Life Line to Britain," our "water life line" supplying our defense industries is just as important.

I asked Supervisor Smith, Friday to call this to your attention, it is hoped our board of supervisors will take action along with chambers of commerce to bring this before officials at Washington. The Senate Truman investigating committee anticipates making an "On The Spot investigation about Sept. 1. Camps go 8/15/41.

Support from 10,000 Churchmen of Pasadena in regard to proposed ordinance by Supervisors to prevent the dumping of milk and wasting and destroying of foodstuffs in L. A. County was presented to you in above letter and this matter

on being presented to merchants and Mfg. Comm. brought information that 1,000,000 qts. of milk was dumped and that Beck and his group will receive as salaries \$1,250,000 the coming year and milk prices advanced one cent per qt. on the 1st of August.

An ordinance to prevent future action of a like character is necessary to protect the public.

The opinion supplied you July 14, 1941, by Mr. Gaylord, the deputy county council advising an ordinance requesting a permit before food is disposed of other than by use, sale, or gift is both possible and feasible to prevent a health hazard.

Mrs. Margaret Grier and the 60,000 women who sent you the original request expected favorable action and still do.

I am sure the Supervisors who were elected to protect the public will order this ordinance prepared and pass it and cooperate with the city of Oakland and not let the farmers of Marin Co. in the North show up the farmers, officials, and milk dealers of Southern California.

48,000 Pasadena grocery-store clerks have recently been organized and told to pay \$2 each per month or they could not work. "Mr. Jessup Please Note."

This money could be used better for national defense than going to pay the salaries of outsiders from other states who have all the earmarks of labor dictators.

If this keeps up and the public gets no relief from our elected representatives, the government will no doubt be requested to take over the unions and administer them under the labor relations board and use the dues for national defense, at least the public will get the benefit instead of a lot of outsider labor bosses.

Beck and Bridges were stopped in 1934; have you stopped being Americans in 1941?

Mr. Jones is suggesting changes in the supervisorial Districts and lack of action to protect the public in this milk question may raise the question of changing "Dark Horses in the Middle of a Very Murky Stream."

I think we have a good board of supervisors; now is a good time to display your horse sense and order an ordinance prepared. "60,000 Women can't be Wrong."

Yours Very Respectfully,

GEORGE L. KELLEY,
Pasadena Safety Chairman.

c. c. Merchants and Mfg. Association,
Conservation Association of So. Calif.,
News Papers.
For Tuesday 8/12/41.

glk/zck.

EXHIBIT No. 108

H. A. VAN NORMAN
*Chief Engineer and General
Manager of Water Works*

207 So. Broadway
LOS ANGELES
Michigan 4211

DEPARTMENT OF WATER AND POWER

CITY OF LOS ANGELES

BUREAU OF WATER WORKS AND SUPPLY

August 19, 1941.

TRUMAN COMMITTEE,

*Senate Special Committee Investigating National Defense,
Room 1607, Federal Building, Los Angeles, California.*

GENTLEMEN: In response to your request that I make a statement for the record before your Committee, on Thursday morning, August 21, respecting the water supply of The City of Los Angeles, I am submitting the following in written form, hoping it will save your Committee some valuable time:

The City's supply of water is obtainable from three sources.

The first source of supply is from the underground basins in the San Fernando Valley and the coastal plain area to the south extending to the harbor. The capacity of our installations for the recovery of water from these underground basins is approximately 200 cubic feet per second, and in case of an emergency this quantity could be extracted for a period of six months, which would be approximately 100,000 acre-feet.

Next is the supply through the Los Angeles Aqueduct, from the east slope of the Sierra Nevada in Inyo and Mono Counties. This aqueduct has a capacity of 450 cubic feet per second continuous flow. An adequate seasonal and cyclic storage has been provided at the headwaters of the Owens River and on the streams in Mono Basin to provide this 450 cubic feet per second as the minimum during wet and dry seasons alike. The intake of this aqueduct, from the Owens River, is fifteen miles north of Independence in Inyo County, and the aqueduct extends southerly to the San Fernando Valley in Los Angeles city, a distance of 240 miles.

The yield of water from the Owens River watershed is supplemented by an extension into Mono Basin, where a collecting system, storage and regulating reservoirs, and an eleven-mile tunnel through the Mono Craters deliver the water into the north extremities of Owens River, from whence it flows through the Owens River to the intake of the aqueduct.

The Haiwee Reservoir, sixty miles from the intake of the aqueduct, has a capacity of 58,525 acre-feet. Fairmont Reservoir, approximately 135 miles south of Haiwee, has a capacity of 7,487 acre-feet. Between Fairmont and San Fernando Valley is the Bouquet Canyon Reservoir, with a capacity of 36,500 acre-feet. This reservoir is thirty miles from the terminus of the aqueduct.

The water discharging from the end of the aqueduct passes through Upper San Fernando Reservoir, where a partial diversion is made westerly to the Chatsworth Reservoir in the extreme west end of San Fernando Valley, and the remainder is discharged directly into the Lower (main) San Fernando Reservoir. From these two reservoirs supply lines are constructed across San Fernando Valley, taking care of the reservoirs in the Valley and discharging into Encino Reservoir on the north side of the Santa Monica Mountains, and into the Stone Canyon, Upper and Lower Franklin, and Hollywood Reservoirs on the south side of the Santa Monica Mountains. These reservoirs (together with one farther East called Silver Lake, that is supplied largely from the San Fernando Valley supply heretofore referred to) are the main storage and regulating reservoirs of the local system. The capacities of these reservoirs are shown on the attached exhibit, "Reservoir and Tank Data."

The consumption of water from the city system during the fiscal year 1940-41 averaged 339.4 cubic feet per second. The average for the six summer months was 427.1 cubic feet per second; and for the six winter months, 251.7 cubic feet per second. Therefore, having 200 cubic feet per second available for extraction from the underground basin for a six-month period, it would require an additional 227 cubic feet per second to supply the full demands of the city for a six-month period in the event the flow on the desert north of Fairmont Reservoir was interrupted for that length of time, which would be equivalent to approximately 80,000 acre-feet to be drawn from service reservoirs during the six-month period. The table at the top of page 3¹ summarizes the capacities of such reservoirs, and it is shown by these figures that such an interruption of the flow of the Los Angeles Aqueduct as referred to above would not seriously interfere with the water supply of the city, as it is not likely that any act of sabotage could be so extensive that repairs could not be made in a very much shorter period than six months.

Reservoir:	Capacity (Acre-feet)	Reservoir—Continued	Capacity (Acre-feet)
Fairmont.....	7, 487	Stone Canyon.....	7, 998
Bouquet Canyon.....	36, 500	Hollywood.....	4, 034
Upper San Fernando.....	1, 977	Lower Franklin.....	1, 043
Lower San Fernando.....	20, 500	Silver Lake.....	1, 995
Encino.....	3, 229		
Chatsworth.....	10, 125	Total.....	94, 888

In addition to the above resources, as a third source of supply, water from The Metropolitan Water District of Southern California is now available to Los Angeles along its eastern boundary. However, before it can be used it will be necessary to extend connections from the present Metropolitan Water District distributing system westerly to a small reservoir near the Westwood section of Los Angeles. This line would have a capacity of 150 cubic feet per second, and pipe lines of our present distributing system can be connected to the existing Metropolitan Water District line extending along the east boundary of the city from Eagle Rock to the harbor at San Pedro. With these extensions, and the connecting pipe line heretofore referred to, there would be an additional supply

¹ See table on this page.

of 200 cubic feet per second available. I feel that these connections should be made, so that the water from this source could be made available in the event that serious damage occurred to the aqueduct between the Fairmont and Upper San Fernando Reservoirs which would prevent the use of Bouquet Canyon and Fairmont and cut down the supply to the city to a maximum of ninety days unless water from the Metropolitan was available.

It will take some months to secure the materials and construct a large trunk line, and it would appear to be prudent to proceed with this at once. The present facilities of the Bureau of Water Works and Supply, as can readily be seen from the above outline, are adequate to take care of all requirements in normal times, but under the existing conditions I believe that every precaution should be taken to guarantee the continuity of a water supply to the important defense industries within the city of Los Angeles. Details and estimates of cost will be available if, through the efforts of your committee, the decision is made to make these connections.

In June 1940 the management of the Department of Water and Power inaugurated the establishment of a system of guarding its properties against violence, and at present we believe we have sufficient personnel available to take care of any attack on any of our properties that could be expected under present conditions. We have the full cooperation of the peace officers in all counties and cities through which our properties pass, and also have the assurance from the State Highway Patrol that they will furnish us with motorcycle officers any place within the State promptly upon call.

Respectfully submitted.

H. A. VAN NORMAN,
Chief Engineer and General Manager.

HAVN
CRM
Enclosure.

EXHIBIT No. 109, introduced on p. 1827, is on file with the Committee.

EXHIBIT No. 110 appears in text on pp. 1860-1861

FLETCHER BOWRON
MAYOR

EXHIBIT No. 116¹

OFFICE OF THE MAYOR, CITY HALL,
LOS ANGELES, CALIFORNIA,
September 5, 1941.

TRUMAN COMMITTEE,
United States Senate, Washington, D. C.

GENTLEMEN: At the time of the hearing of your Committee in Los Angeles, one of your Committee members, Senator Mead, of New York, took occasion to make certain public statements relative to unsafe conditions at our harbor.

As I had previously advised members of your Committee, Senators Truman, Mead, and Wallgren, we were fully aware of the facts and were taking steps to correct them. I advised that we had had conferences with officers of the Coast Guard, officers of the United States Navy, and the Commanding Officer at Fort McArthur.

We regret very much that a member of your Committee felt that it was necessary to make the public statement that he did, calling attention to the fact that the goods shipped through our harbor were not adequately protected and further calling attention to a fruitful field of operation for possible saboteurs.

Please be advised that the conditions to which public attention was directed have been corrected. Two boats manned by police officers are now patrolling the inner harbor. These boats have been supplied by the Harbor Department of the City of Los Angeles. Sufficient time has not elapsed to permit the securing of the boats that will be permanently used for patrol work. After diligent inquiry, representatives of the city have been unable to locate for purchase the kind of

¹ Entered in the record on September 12, 1941, see Hearings, Part 7.

boats they want. However, as soon as they can be found, three boats will be purchased and the police patrol system will be continued day and night, with one boat operating in the daytime and two at night in the inner harbor.

Attached hereto for your information is a report from the Chief of Police of the City of Los Angeles relative to the police patrol service.

We wish it were possible to give the same kind of public notice to conditions as they now exist as members of your Committee saw fit to give during the period of the hearing in Los Angeles. We believe that any public statement that might be made will be helpful in undoing the damage done by reason of the unfavorable publicity our harbor has received.

Yours very truly,

FLETCHER BOWRON, Mayor.

FB:M
Enc.

DEPARTMENT OF POLICE
LOS ANGELES, CALIFORNIA
C. B. HORRALL, CHIEF

Michigan 5211

In replying please give
our reference No. 1.1.4.

SEPTEMBER 4, 1941.

Hon. FLETCHER BOWRON,
Mayor, Room 105, City Hall,
Los Angeles, California.

DEAR SIR: The following report indicates the action taken by this Department to increase the police patrol service in the Harbor area. This report will be developed on the following four-point basis:

- I. Additional personnel.
- II. New equipment.
- III. Reassignment of personnel and equipment.
- IV. Traffic survey.

I. Additional Personnel:

- 1 Lieutenant assigned as of August 29, 1941, as Coordinator, working with Mr. Morgan Adams, Board of Harbor Commissioners, and directly responsible to Deputy Chief Ross R. McDonald, Director of Field Operations.

Duties: Confer with and coordinate various activities of Armed Forces; other Governmental Agencies, i. e., Federal, State, County, and City; Private Industries, insofar as compatible with the various laws, rules, and regulations of the above services.

- 2 Policemen, assigned as of August 21, 1941, to augment the land patrol force.

- 18 Policemen, assigned as of September 3, 1941, to inaugurate a 24-hour water patrol in the Harbor area.

II. New Equipment:

- 2 Patrol Boats, furnished by the Harbor Department, equipped with two-way radio, to be manned and operated as follows:

Day Watch: 1 boat, manned by 3 Policemen, to patrol the entire Harbor area.

Night and Morning Watches: 2 boats, each manned by 3 Policemen—one to patrol the West Basin, the other to patrol the remaining water-front area.

III. Reassignment of Personnel and Equipment:

Day Watch: All radio car officers were instructed to patrol the water front as frequently as possible.

Night Watch: 1 additional radio car, manned by 2 Policemen, assigned to patrol the water front.

Morning Watch: 1 radio car, manned by 2 Policemen, reassigned to patrol the water front.

Supervision: Sergeants, formerly assigned to Wilmington Station, have been reassigned as Field Sergeants for the purpose of supervising the water patrol and observing conditions on the docks.

Land patrol in San Pedro and Wilmington districts will be supervised by the Sergeants assigned to radio cars.

Traffic: All Policemen on Terminal Island have been instructed to enforce the traffic regulations on Terminal Island.

IV. Traffic Survey:

Mr. R. T. Dorsey, Traffic Engineer, is conducting a survey for the purpose of submitting to this Department recommendations for more efficient traffic control on Terminal Island.

The foregoing report is a supplement to that submitted to your office on August 25, 1941.

Respectfully,

C. B. HORRALL,
Chief of Police.

CBH: RRM/as

SUPPLEMENTAL DATA

The following data appears herewith in connection to the testimony of Capt. R. L. Richardson, supra p. 1675.

WAR DEPARTMENT,
OFFICE OF THE QUARTERMASTER GENERAL,
Washington, September 4, 1941.

In reply refer to QM 095 C-P (Fulton, Hugh F.).

MR. HUGH F. FULTON,
*Senate Investigating Committee, Senate Office Building,
Washington, D. C.*

DEAR SIR: Enclosed herewith in duplicate copy, the Associated Equipment Distributors' Uniform Lease Contract forms as requested during my testimony for your Committee.

For The Quartermaster General:

Very truly yours,

ROBERT L. RICHARDSON,
Captain, Q. M. C., Assistant.

2 Incl.

Incl. #1—Uniform Lease Contract (Dup.)

Incl. #2—Privilege of Purchase Option (Dup.)

ASSOCIATED EQUIPMENT DISTRIBUTORS UNIFORM LEASE CONTRACT

Phones:

Date

Lessor's Order No.

Lessee's Order No.

*The space inside this border reserved for your firm name, address,
city, state, and telephone number.*

Individual

The..... Corporation of the City of.....
Partnership

County of, State of, Distributors of
Machinery and Equipment, hereinafter called the lessor, hereby proposes to lease
and does lease to

City of, County of, State of
days

hereinafter called the lessee for a minimum period of weeks, or more, the
months

equipment described in the subdivision of this contract designated "Equipment
Leased" according to the terms and provisions as stated on the reverse side of this
page to-wit:

1958 INVESTIGATION OF THE NATIONAL DEFENSE PROGRAM

The lessee agrees to pay for use of the following equipment, rental as follows:
\$----- Payable with order and covering first month's rental
\$----- for second month's rental
\$----- for third month's rental
\$----- per month thereafter, all rentals being due monthly in advance
and payable at the office of the lessor in the City of -----,
County of -----, State of -----.

If this equipment is leased on a daily or weekly basis, the rate shall \$-----
per day,
per week, payable daily or weekly in advance.

EQUIPMENT LEASED-----

F. O. B.----- Total Value \$-----
for use in construction operations on----- Job
at or near----- In the state of-----
Ship to-----

When----- Via-----
Invoice to-----
Street Address----- City and State-----
Credit Reference-----

TERMS AND PROVISIONS OF LEASE

1. The rental period shall begin on and include the date of shipment to lessee and shall end on and include the date of shipment to lessor, subject to provisions as to minimum rental period. If equipment is kept longer than the specified minimum rental period, the rental will then be invoiced out on a pro-rata basis.
2. The lessee agrees not to use the equipment and machinery hereby leased more than ----- () hours in any one day nor more than ----- () days in any week unless provision for additional compensation for overtime is made with lessor.
3. It is understood between the parties that the lessor is not the manufacturer of the equipment herein leased, nor the agent of the manufacturer of said equipment and that no warranty against patent or latent defects in material, workmanship, or capacity is given, nor that said equipment will meet the requirements of any law, rules, specifications or contracts which provide for specific machinery or apparatus or special methods, other than that of the original manufacturer of said equipment and as set forth in the manufacturer's catalog and representations wherein said machinery and equipment is listed and described.
4. The lessor shall use reasonable care to see that the equipment is in proper working condition before shipment to lessee. It is not to be actually operated or tested unless such operation or test is deemed necessary by lessor or unless lessee shall request such operation or test in writing, in which event the lessee will be notified of the time and place of said operation and test, and shall be permitted to be present during said operation and test. If having requested it, lessee fails to be present at the time of operation and test, lessee agrees that said equipment as turned out is in proper operating condition.
5. The lessee agrees to maintain said machinery and equipment in the same condition as when delivered to it by lessor, usual wear and tear excepted, and to pay all claims and damages arising from defects therein, or from the use of handling said machinery and equipment, whether from injuries to the person or property, and to pay for all damages to the equipment, except the usual and ordinary wear and tear, during the life of this contract, and to return said property in as good condition as when received to the storage yard of the lessor in -----, usual and ordinary wear and tear excepted and to pay all freight, demurrage, storage, switching, drayage, trackage or other charges against said equipment from the time the same shall leave the storage yard of said lessor up to and including the time of its return to said storage yard, or other place of return agreed upon.
6. The receipt and acceptance by the lessee of said equipment will constitute acknowledgment that said property has been accepted and found in good, safe and serviceable condition, and fit for use, unless the lessee makes claims to the

contrary to the lessor by registered mail with return receipt demanded, addressed to the lessor's office in the City of _____ within three days after receipt of said equipment. The complaint as made shall set forth in detail its complete nature and the condition of the property received.

7. Should any of the machinery, equipment, or appurtenances, be received and accepted by the lessee from any drayman, railroad company or any other carrier transporting same in a damaged condition, or with any of the machinery, equipment, parts or appurtenances missing, it shall be the duty of the lessee to obtain from said drayman, railroad company or other carrier, a written acknowledgment of the damage or shortage. The failure on the part of the lessee to obtain such statement or acknowledgment, upon its receipt and acceptance of said machinery, equipment, parts and appurtenances shall be treated as an acceptance of said machinery, equipment, parts and appurtenances in good, safe, serviceable condition and fit for use. Any damage or loss which has occurred and is not covered by a written acknowledgment or statement as aforesaid, or which occurs after acceptance of said property, shall be repaired and replaced at the expense of the lessee. If the machinery, equipment, parts or appurtenances are damaged or lost in transportation and the lessee furnishes to the lessor a written detailed acknowledgment and statement from the carrier setting forth the character of damage and loss, the lessor agrees to use reasonable diligence in having said repaired and loss replaced within a reasonable time, but the equipment shall be deemed to have been delivered on the date of acceptance thereof from the carrier.

8. In the event of notice to the lessor by the lessee that the equipment is not in good, safe and serviceable condition and fit for use upon its arrival, the lessor shall have the right to put said equipment in good, safe and serviceable condition and fit for use, within a reasonable time, or to cancel this lease.

9. The lessor shall not be liable in any event to the lessee for any loss, delay or damage of any kind or character resulting from defects in, or the inefficiency of the equipment hereby leased or accidental breakage thereof.

10. In the event of accident to, or breakage of, any part of the equipment lessee may have the same repaired by any competent person, firm or corporation at its own expense or, upon notice to the lessor as to such breakage or accident, the lessor may repair said machinery for the lessee, using reasonable diligence to make said repairs or replacement in the shortest possible time, and the lessee agrees to pay the lessor its regular charges for any material or labor furnished in making said repairs upon demand; in the event any work is done outside of lessor's regular hours, including work necessary by wear and tear, by reason of which lessor shall be required to pay double time or other overtime charges to its employees, or to anyone doing the work for lessee, all such charges will be paid by the lessee to the lessor.

11. In the event the lessee accepts the machinery and equipment, as herein provided, and thereafter the said machinery proves defective or unfit for use, because of accident or otherwise, or, if for any other reason lessee desires to discontinue the use of said machinery or equipment, the only remedy of lessee shall be to return the machinery to lessor and terminate this contract as herein elsewhere provided, by paying all rental charges and other charges herein provided for, which in no event shall be less than the transportation charges on said machinery and equipment and minimum rental herein provided for.

12. The lessee agrees to pay any charges for work or inspection required by any labor union. The lessor may, at its option, refuse to do any repair work on the equipment in time of strike, or any other cause beyond its control, or in violation of any rule effecting the equipment. The lessor reserves the right to remove the equipment from the job at any time when, in its opinion, the equipment is in danger because of strikes or any other condition.

13. The lessee agrees to comply with and conform to all municipal, state and federal laws relating to the operation of said machinery and to pay all costs and expenses of every character occasioned by or involving the use or operation of the machinery or equipment, and to pay all legal assessments, taxes or public charges which may be levied upon said equipment while in the possession of the lessee.

14. The lessee agrees to pay the lessor for all loss and damages occasioned by fire, theft, flood, accident, explosion, wreck, an act of God or any other causes that may occur during the life of this lease, and until such machinery has been returned into the possession of the lessor and accepted by it. For the purpose of finding the valuation of said property in order to determine the loss, damage or injury thereto, it is agreed by the parties hereto that the value as hereinbefore stated shall be a true and just value forming a basis for such adjustment. In

making such adjustment it is understood that no rentals theretofore paid or due shall apply to the payment of such loss.

15. The lessee further agrees to indemnify the lessor against all loss, damage, expense and penalty arising from any action on account of any injury to person or property of any character whatsoever occasioned by the operation, handling or transportation of any of the equipment during the rental period, and while said machinery and equipment is in the possession or under the custody and control of lessee.

16. The lessee further agrees to protect the lessor on this contract with full insurance coverage, said insurance to cover damage occasioned by fire, theft, flood, explosion, accident, act of God, or any other cause, that may occur during the life of this lease and to protect the lessor for public liability insurance for coverage to the limits of the State laws in which the equipment leased is being used.

17. The title to the property herein leased and to all replacements thereof or substitution thereof is, and shall remain in lessor, and said machinery and equipment shall not become a part of any building, by being placed therein or by being annexed thereto. Where the equipment is annexed to any property the lessee shall furnish the lessor with a landlord's release, which shall permit the lessor to remove the equipment from said property at any time during the life of, or after expiration of, this contract.

18. The lessee agrees, whenever requested by lessor, to give lessor the exact location of all of the machinery and equipment covered by this lease and further agrees to give lessor immediate notice of any levy attempted upon said equipment, or if said equipment from any cause becomes liable to seizure, and to indemnify lessor against all loss and damages caused by any such action. The lessor shall have the privilege at all times of entering any job, building or location where the above property is being used for the purpose of inspection and reserves the privilege of removing said machinery and equipment on twenty-four hours' notice if it is being overloaded or taxed beyond its capacity or in any manner being abused or neglected.

19. The equipment hereby leased shall not be sublet without a written consent of the lessor nor shall said property be moved out of the state specified in this contract without written consent of the lessor.

20. Should any of the provisions of this lease be violated by lessee the rental for the entire period herein specified, shall become forthwith due and payable, and the lessor, or its agents may, without notice, enter the premises occupied by lessee without being a trespasser thereon and take possession of and remove said equipment with or without process of law. In the event any action as hereinbefore set forth becomes necessary the lessee agrees to pay, in addition to other charges herein specified, all costs of removal of said machinery from the possession of the lessee and all freight, demurrage, storage, labor or other charges on or against said property incurred during or by the removal, shipping and return to the possession of the lessor in ----- or equivalent point designated by lessor.

21. The lessee agrees to pay all rentals when they are due and for all services and materials furnished and all damages and sums due the lessor under this contract as soon as the loss occurs or services are rendered or materials are furnished. The taking of notes, or renewals thereof, covering rentals herein specified shall not in any manner whatsoever change or invalidate the terms and conditions of this contract.

22. Lessee agrees that if any of the lease provisions are violated and lessor demands the return of the equipment that this lease shall constitute authority to the watchman or other persons responsible for the equipment to deliver all or any part of the equipment to the lessor or its agents.

23. In case any matter is written or typed into this printed contract other than such as is necessary to fill the blanks provided therein, such matters shall be deemed an addition to the contract and it is specifically understood and agreed that such added matter is not in any manner whatsoever intended to alter the meaning or intention of the printed clauses of the contract and in case of conflict and inconsistency between the printed portions and the written or typed additions, the printed portion shall control and any written or typed clause in conflict therewith shall be treated as void.

24. Both lessor and lessee agree that no modification of this agreement shall be binding upon them or either of them, unless such modification shall be in writing and duly accepted in writing.

25. This lease before becoming effective must be approved by an Officer of Lessor, at the home office of Lessor.

We agree to all the above conditions which are thoroughly understood.

YOUR FIRM NAME HERE

Lessor.

By _____ Lessee.
Authorized to sign for the above Lessee

By _____

Date _____

Approved

YOUR FIRM NAME HERE

By _____

Date _____

AFTERWORD

The average contractor handles a wide variety of work and every job differs from others, thereby necessitating the use of different kinds of equipment.

If a contractor purchases all his equipment he often finds he has quite a large amount of capital frozen in machinery that is seldom used or else he uses it on work for which it is not fitted and pays a penalty in lessened profit. Such a contractor, when contracting methods change, is prevented from adopting newer methods because he feels he must use the equipment he owns.

It pays the average contractor to buy only that equipment which is standard on most of his work and which he can keep busy about eight months out of the year. On his equipment requirements for work other than this he can usually save money by renting.

The use of construction equipment secured on a rental basis has become an important and established fact in present day construction work.

Contractors can select rental equipment best adapted to the requirements of the job on hand, secure it on short notice and release it as soon as the work is finished. Rentals paid are the total equipment expense chargeable to the job, whereas an owned equipment carrying charges, maintenance, depreciation, obsolescence, storage, yard and watchman expenses, etc., should all be properly distributed.

It is not the small poorly financed contractor that is renting equipment. It is the first-class aggressive contractor that has analyzed his costs and has found in many cases that it is not economical to own too much equipment when a proper rental service can be obtained from a reliable dealer.

(This form prepared by rental committee, Associated Equipment Distributors, Eldon M. Farnum, Chairman, 3343 Franklin Ave., St. Louis, Mo.)

ASSOCIATED EQUIPMENT DISTRIBUTORS UNIFORM PRIVILEGE OF PURCHASE OPTION

Phones:

The space inside this border reserved for your firm name, address, city, state, and telephone number

PRIVILEGE OF PURCHASE OPTION

Between _____, 194____
and _____, party of the first part
and _____, party of the second part.

If the party of _____ the first part shall keep all the terms of the lease agreement dated _____, to which this purchase option is attached, the party

of the first part shall have the privilege of purchasing the equipment covered by said lease agreement at any time before the expiration of this privilege of purchase option, upon payment to _____, of the sum of _____, which shall be the full value or purchase price of the equipment set out in the lease contract and upon payment of all sums which said party of the first part may owe said _____, for supplies and repairs purchased during the term of the lease to which this purchase option is attached, on the following terms and conditions:

If purchased within _____ days _____ of the paid rental to apply on full value or purchase price set out above.

If purchased within _____ days _____ of the paid rental to apply on full value or purchase price set out above.

If and when this Privilege of Purchase Option is exercised, the lessee agrees to either pay the balance due in cash, in which event the lessor will execute a bill of sale, or enter into a conditional sales contract with the lessor covering the terms of sale.

If this option is not exercised the lessee shall have the privilege of continuing to rent with no privilege of purchase option, or returning the goods to the lessor. In such case the terms and conditions of the lease contract attached hereto shall be in full force.

Failure to make full payment of rentals due for said property under lease contract attached hereto within ten days of the time specified shall be considered as an abandonment of this option and it shall thereby immediately expire and become null and void.

Both parties agree that no modification of this agreement shall be binding upon them, or either of them, unless such modification shall be in writing and duly accepted in writing. Also that in all cases that this contract is regarded as having been made in the State of _____.

This option before becoming effective must be approved by an officer of _____ at the home office in _____.

We agree to all the above conditions, which are thoroughly understood.

YOUR FIRM NAME HERE

 By _____ Party of the first part

 Authorized to sign for above
 Date _____

Per _____
 _____ Party of the second part
 Approved by _____
 _____ Authorized to sign for above
 Date _____

The following letter is included in relation to the testimony of Capt. J. T. Mathews, supra, pp. 1840-1850.

NAVAL OPERATING BASE,
 ELEVENTH NAVAL DISTRICT,
 San Diego, California.

The Honorable HARRY S. TRUMAN,
 Chairman of the Senate Investigating Committee,
 Federal Building, Los Angeles, California.

MY DEAR SENATOR TRUMAN: I do not know whether it has been the practice of your committee to submit a transcript of the testimony of each witness who appears before your committee for his perusal and verification, as is customary when officers of the Navy Department testify before regular committees of Congress. Anyway I should like very much to have you insert in the appropriate places in my testimony which was given to the committee on the afternoon of August 21, 1941, in Los Angeles, the following revised answers to certain question which were propounded. These statements will not change the intent but will probably be clearer than my original oral testimony and will in certain instances amplify it.

GENERAL STATEMENT REGARDING LOW COST DEFENSE HOUSING IN SAN DIEGO AND LONG BEACH, CALIFORNIA, WITH PARTICULAR REFERENCE TO THE NEEDS OF NAVAL MARIED ENLISTED PERSONNEL AND CIVILIANS ATTACHED TO SHORE ACTIVITIES OF THE NAVY IN THOSE LOCALITIES

About 18 months ago, or to be specific, under date of March 7, 1940, the Bureau of Yards and Docks, Navy Department, Washington, D. C., which has cognizance of the preparation of estimates of cost and the design of all new construction for the shore establishments of the Navy, and also for the maintenance and operation of Public Works and Public Utilities at all of our Navy Yards and the majority of naval stations, requested the Commandant to furnish an estimate of the probable number of low-cost housing units in the vicinity of naval activities in the Eleventh Naval District which could be rented to married enlisted personnel and whether suitable Government owned sites could be made available for this, and if not whether suitable sites within reasonable distance could be purchased for fair prices. The Commandant immediately made a survey of the situation and based on information received from the Commanding Officers of the various shore activities located in the Eleventh Naval District and from the Commanders of the various forces of the Fleet which were normally based at San Diego, San Pedro and Long Beach, he informed the Bureau of Yards and Docks, under date of March 12, 1940, that about 5,000 enlisted married men afloat and 1,500 ashore were renting quarters at that time in San Diego and that approximately 1,000 of these units were inadequate and rentals excessive; that the housing situation would be greatly improved and rents generally lowered if 1,000 one-story low cost housing units were constructed. No Government owned land was available but several sites throughout the City were available at \$500 to \$1000 per acre. Similarly he reported that in the Long Beach-San Pedro area about 7500 married enlisted men rented quarters but that the housing situation in that area was somewhat better than in San Diego, but that it too could be improved if approximately 1,000 units were constructed in that vicinity, and that suitable sites could be purchased in Long Beach at approximately \$1,000 per acre.

Subsequent to that survey and in response to further inquiry of the Bureau of Yards and Docks, the Commandant under date of July 11, 1940, recommended that two low-cost housing projects of 500 each, one in the vicinity of the Destroyer Base and the other in the vicinity of the Marine Corps Base, be constructed at an estimated cost of \$3,500,000 or less, as the appropriation of \$100,000,000 which had been made by the Congress in the Second Supplemental Defense Bill for use of the President to provide low-cost housing for the War and Navy Departments, set up a top limit of \$3,500 per unit, including the cost of land, building construction, and all utilities and other services. Under date of August 28, 1940, the Commandant sent a despatch to the Chief of the Bureau of Yards and Docks in which he stated that the housing shortage in San Diego was becoming more acute daily because of greater increases in employment in civilian defense industries and large personnel increases at District shore activities, and that the absence of many units of the fleet had not appreciably decreased the number of families living ashore. Funds were again requested for immediate construction of 1,000 units for married enlisted personnel and also 500 units for naval civilian employees and recommended that the work be done by the Navy. Under date of September 11, 1940, the Commandant was informed by the Bureau of Yards and Docks that funds would be available within a few days for the construction of 1,200 low-cost housing units in San Diego for married enlisted personnel and civilian employees of the Navy, and also 400 housing units for married enlisted personnel in the Navy at Long Beach.

The Commandant thereupon immediately began to consider sites for the location of these projects and finally a tract of land containing 67 acres of land adjacent to the northern boundary of the Destroyer Base was selected and purchased from the San Diego and Arizona Eastern Railroad Company at a cost of \$23,500. Physical possession of this property was taken on October 10, 1940 pending the execution of an option to purchase at that price which was finally executed by the Government under date of November 18, 1940. The price of this parcel was considered very fair in view of the fact that the property was assessed by the County Tax Assessor at only \$26,180 which under the local method of appraisal would indicate a fair market value of \$52,360.

A site for the project adjacent to the Naval Training Station and Marine Corps Base in San Diego, consisting of 48½ acres was recommended to the Bureau of Yards and Docks on October 8, 1940 for acquisition by purchase. This property was assessed by the County Assessor at \$20,650 which would indicate a fair mar-

ket value of about \$41,300. The owners, the Frontier Enterprise, Inc., agreed to sell for \$32,625 which was considered very reasonable. The Bureau approved the purchase of the property and an option was executed under date of October 19, 1940 by the owners and the Navy Department and occupancy was taken by the Government on that date.

The site selected for the project at Long Beach, near Santa Fe and Hill Streets, consisting of 40.36 acres is located within approximately 2 miles of the Navy Landing at Pio Pico Street. This site was chosen for the reason that it constituted an unoccupied area accessible to city sewers, electricity and gas, and near bus line. Recommendations were made to the Bureau of Yards and Docks on October 3, 1940 to acquire the site by condemnation due to the fact the owners, the F. P. Newport Company asked a price of \$2,000 per acre, exclusive of oil rights which was considered excessive. The property was assessed by the County Tax Assessor at \$44,530. Condemnation proceedings were instituted and the property acquired by decree and Declaration of Taking filed on October 29, 1940, at a value of \$42,860 including severance damage of \$2500.

SELECTION OF CONTRACTORS AND DETERMINATION OF AMOUNT OF FIXED FEES

During the period prior to the immediate acquisition of the above sites, the District Public Works Officer (myself) acting under instructions of the Chief of the Bureau of Yards and Docks, held hearings for the selection of contractors to erect these housing units on a cost-plus-a-fixed-fee basis. The record of these hearings was submitted to the Bureau, which after further investigation, on October 4, 1940, executed a contract with the Wm. Simpson Construction Company of Los Angeles for the construction of 1200 units comprising the two projects at San Diego at a total estimated cost of \$3,800,000, (later increased by Change Order to a total price of \$4,125,000), including a fixed fee of \$140,000. On the same day a similar contract was executed with the McNeil Construction Company of Los Angeles for the construction of 400 units at Long Beach at an estimated cost of \$1,263,000 including a fee of \$48,000.

The fixed fees to be paid the contractors for the above housing projects as well as for the other nine cost-plus-fixed-fee contracts underway in this District, were determined by the contracting officer at the Navy Department, and were based upon recommendations of a special board appointed by the Chief of the Bureau of Yards and Docks for that purpose. The average fee is somewhat over 4% of the estimated cost of the project. In his testimony before the Senate Committee on Naval Affairs on June 30, 1941, Rear Admiral Moreell, the Chief of the Bureau of Yards and Docks, gave a very complete and interesting discussion of his experience in dealing with cost-plus-fixed-fee contracts in the Navy Public Works Program.

PLANS, TYPE OF CONSTRUCTION, ETC.

The plans for the project in the vicinity of the Destroyer Base and also for the project at Long Beach, were prepared by the Bureau of Yards and Docks with the exception for the plans of the utilities at each of these projects which were prepared by the contractors under the direction of the District Public Works Officer, who had been designated by the contracting officer as the Officer-in-Charge of the work. These houses are a duplex, 1-story building, containing two housing units, each consisting of a living room, kitchen, bath and an average of two bedrooms. A gas fired floor furnace, hot water heater, kitchen range and electric refrigeration is provided in each unit. The buildings themselves are of a light steel frame type of construction erected on a concrete floor, covered with asphalt tile, sheathed inside with Upson wall board, on the outside with wire mesh and stucco, and a roof of composition tile shingles.

The plans for the 600 units adjacent to the Marine Corps Base and Naval Training Station, were prepared by the contractor under the supervision of the District Public Works Officer and are a modified type of the reinforced concrete units constructed at Vallejo, California, under funds allocated to the Navy by the U. S. Housing Authority. They are 2-story, four family apartments, consisting of a living room, kitchen, bath and two bedrooms with floors covered with asphalt tile, interior plaster walls and the roof of composition tile.

The types of building, design and construction in the first two projects mentioned above are of a semi-permanent type and fire resistive, and will probably last for 25 to 50 years with proper maintenance, while those of the other project are of reinforced concrete construction throughout, which is a permanent type of fire proof and earthquake resistant construction, and will probably last for 100 years or longer with proper upkeep and maintenance.

The average overall cost per unit of the buildings located at Long Beach is \$2,721.47; those at the Destroyer Base \$3,132.91 and those at the Marine Corps Base and Naval Training Station site \$3,835.62, or an average cost for the 1,600 units of \$3,293.51, which represents a savings over the limit established by the Congress, including all cost (\$3,500 per unit), of approximately \$207.00 or a total for the three projects of \$363,192. Further data on the construction of these three projects, including appropriate photographs, are contained in a special brochure which was furnished to Senator Wallgren for the use of the Committee. It is suggested that this brochure be made a part of the record.

RENTAL, MANAGEMENT AND AMORTIZATION OF THE NAVAL LOW COST DEFENSE HOUSING PROJECTS

The rentals for the housing units in the above locations which were originally established by the Commandant, vary from \$10 per month for a unit with one bedroom to \$15 for a unit with three bedrooms for enlisted personnel of the Navy and Marine Corps in the pay grades not receiving rental allowances; \$17 to \$23 per month for those pay grades receiving rental allowances, and from \$20 to \$30 per month for civilian personnel of the Navy whose annual salaries do not exceed \$1,500. Recently the Navy Department has promulgated a uniform system of rentals for all of its housing units in the continental limits of the United States, which vary from \$11 to \$35 per month.

The rental, operation, and maintenance of these housing units are under the Commandant of the eleventh naval district, with the District Public Works Officer and one of his assistants in immediate charge. Assuming that at least 5% of the initial cost of the projects (5% of \$5,000,000) or \$250,000 per annum is secured in rentals, it is estimated that 3% or \$150,000 will be necessary for the ordinary routine upkeep, repairs and operation of the projects and that 2% or \$100,000 will be available for amortization of the three projects over a period of 50 years.

Actual construction at the site on the Long Beach project started on October 21, 1940 and the first tenants moved in on March 1, 1941, or within a little over 4 months after the project was begun. The remainder of the work was completed on May 15, 1941, and 274 units are now occupied.

Actual construction at the site adjacent to the Destroyer Base, San Diego, California, began on October 14, 1940, and the first tenants moved in on April 1, 1941, or within 5½ months after work was begun. The project was substantially completed as of August 1, 1941 and 498 units are now occupied.

Actual construction at the site on the project adjacent to the Marine Corps Base and Naval Training Station, San Diego, California, was started on November 12, 1940 and the first tenants moved in on May 1, 1941, or within 5½ months after work was begun. The project was substantially completed on August 1, 1941, and 383 units are now occupied.

It is therefore apparent that progress on these projects was very rapid in spite of the fact that there were a total of 33 rainy days in which little or no useful construction work could be accomplished.

RENTAL OF EQUIPMENT UNDER COST-PLUS-A-FIXED-FEE CONTRACTS

All construction equipment which has been and is being used in connection with the eleven cost-plus-a-fixed-fee contracts which have been started in this District since July 1, 1940, has been obtained by either one or by a combination of the following methods:

- (a) Rental of equipment owned by the general contractor.
- (b) Rental of equipment owned by others than the general contractor.
- (c) Purchase of either new or second hand equipment by the Government.

Under method (a) monthly rental charges have been determined by the application of certain instructions furnished by the contracting officer which are contained in a pamphlet prepared by the Bureau of Yards and Docks, entitled "Some Commentaries on Cost-Plus-A-Fixed-Fee Contracts," and also a schedule prepared and used by the Association of General Contractors. These schedules take into account the initial cost of the equipment, its depreciation, its present insurable value, taxes, interest and average number of months during the year it has been used by the contractor. These factors are investigated and checked by three representatives of the Officer-in-Charge, viz: his Resident Officer-in-Charge at the site of the work, the Navy Accountant on the job and the Navy Accountant at the Headquarters of the Officer-in-Charge in San Diego, and before any rentals

are paid the schedule which has been prepared as outlined above is presented for the approval of the Officer-in-Charge, and if he is satisfied with it he so informs the Resident Officer-in-Charge, who is thereafter authorized to prepare vouchers on that basis. 15% of the total amount due is withheld to take care of final adjustments.

Rentals under method (b) are paid on a monthly basis as a result of competitive bids received for rental of such equipment as the general contractor is unable to furnish himself and which the Officer-in-Charge considers more economical than an outright purchase. Any rentals in excess of \$100 per month must receive the express approval of the Officer-in-Charge.

A complete record of all equipment and its condition when received is kept and so far there has been no case reported where the total monthly rentals have exceeded the estimated market value of the equipment. In most cases it has been kept within a range of 25 to 50 per cent of that value.

Method (c) has only been used where it would appear to be to the best advantage of the Government to buy and retain the equipment for use on some other job or in certain instances when neither the contractor nor others could supply suitable equipment on a reasonable rental basis.

NEED FOR ADDITIONAL HOUSING IN SAN DIEGO

Although the Commandant originally recommended that only 1,500 units be constructed for married enlisted personnel and civilians attached to naval activities in San Diego, the growth of the City of San Diego has been so rapid during the past year that the need for additional housing, especially for married enlisted personnel, has become very acute as there are now or at least has been, only about a 2% vacancy in houses which were suitable for rental to defense workers. Accordingly, about a month ago the Commandant recommended to the Bureau of Yards and Docks that 600 additional housing units be constructed in San Diego in lieu of Long Beach as the need was much less at the latter city than that originally estimated due to the fact that many of the families of enlisted personnel had moved from the San Pedro area to San Diego for various reasons. Upon a recent visit to San Diego of Mr. John Carmody, the Federal Works Agency Administrator, the Commandant suggested to him and also later recommended to the Bureau of Yards and Docks, that the 600 low-cost housing units recently allocated by the Coordinator of Defense Housing, Mr. Palmer, for rental to married enlisted personnel in Long Beach, which were to be constructed by the Navy Department for the Federal Works Agency, under funds appropriated by the Lanham Act, be allocated to San Diego instead of Long Beach. However, advice has just been received that Mr. Palmer has decided that need for civilian defense workers in Long Beach should take precedence over those of enlisted personnel in San Diego, and accordingly, the funds for the 600 units which it was hoped to secure for married enlisted personnel will be utilized for the construction of low-cost housing in Long Beach for civilians.

However, it is hoped that eventually funds will be provided for the construction of at least 1,000 additional units urgently required for married enlisted personnel and civilian defense workers attached to naval establishments in San Diego. This need is based on the fact that approximately 5,000 applications for houses located in the two navy projects in San Diego were received from enlisted personnel who had dependents living in this area.

In conclusion I should like to state that in my opinion the contractors who have been and are engaged in the performance of work, either by cost-plus-a-fixed-fee or lump sum contracts, for the Navy's Public Works Defense Construction Program in the Eleventh Naval District (which started after July 1, 1940 and now amounts to about \$65,000,000) have, in the majority of cases, been most conscientious and cooperative, and have exerted their best efforts to finish their respective jobs with as much speed as practicable and at the same time endeavor to keep the cost of the work within the limits of funds appropriated for each project by the Congress and allotted for the purpose by the Navy Department.

In the event that you prefer not to revise my original testimony in conformance with the above statements, I will appreciate it if you will consider the subjects discussed in this letter as an amendment, amplification and clarification, of my testimony and that this statement, together with the brochure on housing which was presented to Senator Wallgren, be made parts of my appendices and exhibits which may form a part of your permanent records.

Very truly yours,

J. T. MATHEWS,
Captain (C. E. C.) U. S. N., Public Works Officer, 11th Naval District.

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